GLAECONOMICS

The retail sector in London and the impact of the coronavirus on trends

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March 2021

MAYOR OF LONDON

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Greater London Authority
March 2021

Published by
Greater London Authority
City Hall
The Queens Walk
London SE1 2AA

www.london.gov.uk
Tel 020 7983 4000

Minicom 020 7983 4000

Cover photograph

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Executive summary

This paper provides an assessment of developments in the retail sector prior to the outbreak of COVID-19. The conclusion uses these findings to provide an assessment of some of the impacts of the spread of the virus on the sector.

The retail sector is an important part of London's economy:

- Retail goods accounted for 4.2% of London's output in 2018;
- Retail goods output in London is growing faster than in the UK, and by 3.7% a year between 2010 and 2018;
- There were 446,000 retail goods jobs in 2019, or 7.4% of 6.1m jobs in the capital;
- The number of retail goods jobs peaked in 2015 at 462,000;
- Retail floorspace is 22% of total commercial floorspace in London, and is 35% of floorspace on high streets;
- There were over 70,000 retail shops in London in 2019, and the numbers grew at 0.9% a year between 2015 and 2019;
- Retail shops are a central feature of the Central Activities Zone (CAZ), town centres and high streets across the capital;
- Around a third (34%) of consumer expenditure by Londoners is on commodities which correspond broadly to the retail sector.

At the same time the sector has been facing change from:

- Increased demands for the use of land for housing and the leisure sector, and office space in central London;
- E-commerce;
- Rising costs from the minimum wage, new immigration rules, and the 2017 business rates revaluation.

There is also consideration of developments in the leisure sector. Leisure shops face similar challenges to retail shops around pressures on the use of land, and the effects of increases in the minimum wage, and new immigration restrictions. This sector, though, has been more effective in expanding in areas such as the CAZ, town centres, and high streets than the retail sector.

The retail sector is diverse

The retail sector can be classified as comprising the following categories of businesses:

- **Comparison businesses**
  - businesses selling household goods, such as books or CDs either through a shop or over the internet;
  - comparison shops were 30.4% of shops in London in 2019;
  - internet-only retail businesses mostly, but not entirely, sell comparison goods;
  - many businesses have both a physical and virtual presence in the marketplace.

- **Convenience businesses**
  - Businesses that often sell goods such as food or drink, such as grocers or bakers, but the category, for example, also includes newsagents;

  - 13.2% of shops in London in 2019 were convenience businesses.

- **Service businesses**
  - such as barbers, hairdressers, estate agents, and dry cleaners;
  - 26.4% of shops in London in 2019 were service businesses.

The ONS definition of retail is comparison and convenience businesses, referred to as retail goods businesses in this paper for clarity.

For comparison purposes, and to consider the implications for town centres and high streets, the paper also considers the leisure sector, either in the form of the ONS sector Accommodation and food services, or:

- **Leisure businesses**
  - Includes businesses such as restaurants, bars, takeaway food stores, and bookmakers;
  - 30.1% of shops in London in 2019 were leisure businesses.

This paper also considers retail spending from a consumer perspective. Retail, of course, only covers part of this spending which extends to non-traded services such as transport, health, and education.

Unusually within the London and the UK economies, retail goods productivity has experienced relatively strong growth since 2010

Retail goods output is growing at a faster rate in London than nationally, but nevertheless represents a declining share of London's economy:

- Retail goods output is growing faster than in the UK, and by 3.7% a year between 2010 and 2018;
- The sector, though, is declining as a share of the London economy from 4.6% in 1998 to 4.2% in 2018, despite becoming more important to the UK economy.

Even though the retail goods sector can be considered a low productivity sector its productivity level in London is 30% higher than the national average

Since 2010 productivity growth has been concentrated in Inner London - West:

- Retail goods output growth has been concentrated in inner London, and productivity growth has doubled in inner London – west over the years 1998-2015;
- The productivity level of this sub-region of London is 50% higher than the other sub-regions of the capital. It is where the larger businesses are concentrated;
- Productivity growth has been driven by Westminster, and seems to be a consequence of greater pressure on the use of space in the centre of London.

Recent productivity growth in the sector has been driven by internet-only businesses

The expansion of e-commerce is the most likely explanation of the growth in UK retail goods productivity from 2017. This factor is also likely to have contributed to London productivity growth:

- The available evidence suggests that the full benefits of technological change, such as information technology or automation, have not been reaped;
- It is only with an enhanced competitive threat from internet-only businesses that productivity growth picked up across the wider sector
  - There has been continued growth in retail goods enterprises in London and from 2016 this was almost entirely internet-only businesses;

  - They have increased by 10,495 since 2010 to 38,670 enterprises in 2019[1];
  - 70% of the growth in internet-only businesses has been since 2016.

- Although technological change has both created and destroyed jobs, retail goods jobs appear to have peaked in London in 2015.

E-commerce continues to grow strongly

E-commerce is broadly based, and expanding:

- The growth in households in Britain with internet has risen steadily over the last 20 years and growth is now easing off as over 90% of households have access;
- The proportion of retail goods sales over the internet is still rising steadily with no sign of slowing down and was over 19% of sales in 2019;
- The internet-only retailers have only done as well as all retailing in terms of retail goods sales growth, growing by just under 125%, after inflation, in the period 2008 to 2018;
- All types of store have established an internet presence
  - Retailers with clothing stores have a substantial reliance on internet sales;
  - Over half of clothing and footwear sales are over the internet.

Comparison goods shops are in gradual decline

This paper looks at the main shopping areas of the CAZ, town centres, high streets, and other Opportunity Areas (OAs), and Business Improvement Districts (BIDs). Across these areas of London, comparison goods shops are in gradual decline, (Table 1).

Table 1: Annual growth rate of comparison shops by London spatial area, 2015-2019

Spatial area	Annual growth rate 2015-2019
London	-0.2%
CAZ	-1.4%
Town centres	-1.2%
High streets	-1.0%
Ordnance Survey (OS) high streets[2]	-1.1%
OAs	0.0%
BIDs	-1.5%

The pattern of decline across spatial areas suggests that a general factor is driving these trends. The obvious candidate is e-commerce.

It is pertinent in relation to the trends reported in e-commerce that clothes and fashion stores have been declining by -1.6% a year from 2015 to 2019.

The decline is not universal across all categories of comparison good, and some categories of shop which have faced decline in numbers such as books and music shops have stabilised over the period 2013-2019.

[1] Some of these businesses will be mail order houses. The numbers are small in relation to internet-only businesses
[2] A statistical geography used by the ONS

Despite the contraction in comparison goods shops, retail shops have been growing at 0.9% a year between 2015 and 2019, and there has been growth in both convenience and service shops numbers. In principle, e-commerce might expand into convenience goods, as it has done with food sales, but so far penetration appears to have been relatively limited.

Retail shops have tended to locate in areas, such as town centres, high streets and the CAZ, which are becoming more valuable in other uses

Areas of London where retail development is important to support sustainable access to goods and services for Londoners, workers and visitors include:

- Town centres and high streets which support shopping uses as part of a diverse range of commercial, civic, cultural and community uses;
- The CAZ which takes up 2% of the area of London, but 16% of the city's shops are there and retailing is defined as one of a range of CAZ strategic functions.

These are also areas where there is pressure from other uses, and where the importance of the retail sector is diminishing because the supply of land is fairly fixed. They are also areas where business rates are higher or similar to the rates for other properties, including offices.

To take advantage of agglomeration economies office space is expanding in the central areas of London:

- Office space has declined in 21 boroughs over the ten years to 2019/20 despite increasing overall;
- There was growth in retail space in all but six local authorities over the same period.

Population and employment are growing faster on OS high streets (a statistical geography used by the ONS) than elsewhere in London.

Leisure activities are being favoured by households over retail activities, including in the main shopping and other spatial areas:

- Leisure shops have been growing at a faster rate in London than retail shops, at 1.7% a year between 2015 and 2019;
- Leisure shops are growing faster than retail shops across all spatial areas;
- On OS high streets across most of Britain, and almost all of the local authorities of London, the share of retail employment has been declining while that of Accommodation and food services has been rising.

Increases in business rates following the 2017 revaluation are not helping London's retail shops

The 2017 business rates revaluation concluded that retail rates should rise by 26.8%, the highest increase of any sector in London, and only one of three regions in England and Wales with an increase in retail rateable values.

London's collectible share of all business rates in England rose to 32.1% in 2017/18 from 28.4% the year before. Total national revenue year-on-year is intended to remain unchanged.

The implementation of the revaluation was unfavourable to retail businesses, and took place at a time when retail shops were weakening:

- The revaluation assessed rateable values up to April 2015 when vacancy rates were lower, and since 2015 both vacancies as well as shops have been rising across London, and shop vacancy rates have been increasing across the main shopping and other areas since 2016;

- Business rateable values per metre squared are higher for retail businesses than all businesses across London, town centres, high streets and the CAZ;
- Business rateable values per metre squared are higher for retail businesses than offices in the CAZ;
- Business rateable values per metre squared rose faster for retail businesses than all business across London, town centres, and the CAZ, with the ratio of rateable values for retail businesses compared with all businesses in the CAZ rising from 124% to 149%.

The phasing of implementation has favoured parts of London and some businesses:

- Collectible business rates fell in 13 London local authorities between 2016/17 and 2018/19
- London's share of the yield from the business rate supplement for small businesses rose from 29% in 2016/17 to 36% in 2017/18
- This was worth £226m to London in 2018/19 and £631m to England
- London's share of businesses benefiting from the supplement went up from 17% in 2016/17 to 20% in 2017/18
- However, small businesses in London receiving a discount over the total number of eligible businesses in England reduced from 23% in 2016/17 to 20% in 2017/18.

Increases in the minimum wage and immigration restrictions also adversely affect the retail goods sector

The retail goods sector might be particularly affected by increases in the minimum wage. These might bring relatively more workers onto this wage, and encourage firms to increase the wages of employees above the minimum to maintain pay differentials:

- Average hourly pay in London in the bottom decile of the retail goods sector in April 2019 was £8.25, barely above the minimum wage at the time of £8.21;
- Wage growth across the deciles is low compared with the London and UK economies;
- Increases in the national minimum wage, and for over 25s the National Living Wage, have typically been below 5% since 2007[3].

The new immigration regime from January 2021 will mean it is not possible to fill low paid jobs from overseas. Only 54% of retail goods jobs in London are filled by UK nationals. The corresponding figure for Accommodation and food services is 31%. Other things being equal this will place upward pressure on wages.

The retail sector is diversifying in town centres and high streets although there is faster growth in shops elsewhere

Over the last 50 years it has been the wider performance of an area which has tended to be important to the health of the retail sector rather than the reverse. Retail activity has tended to concentrate where economic activity is rather than where people live. This may, in part, be because shoppers can make use of public transport links for major trips, and because tourists are important for some shops in the CAZ.

However, this relationship is weakening and does not explain how areas across London developed between 2013 and 2019. Other analysis has found that it is the larger town centres which have expanded floorspace, and particularly comparison floorspace, fastest at the expense of smaller town centres. This paper does not find evidence for polarisation by size of the main shopping area. What it does find across spatial areas of all sizes is that a change in comparison shops is correlated with a change in all shops, whether this is an

[3] See National Minimum Wage and National Living Wage rates - GOV.UK, although the 50p increase in April 2016 was 7.5%, and the 51p increase in April 2020 was 6.2%.

expansion or a contraction. The exception is town centres, where there is not such a relationship, and which may have been more successful in diversifying their appeal. The rise of e-commerce may be discouraging significant developments to expand comparison floorspace.

Shops in some of the main shopping areas are being successful, and in others they are not:

- In 40% or more of town centres and high streets shop numbers are falling;
- The quality of the street environment may be a factor in promoting footfall.

High streets may be retaining their appeal as places to shop. Retail space is becoming more important and is now 35% of all space. This, however, is largely because of a loss of business space to other uses. High streets have been less able to diversify away from comparison shops where these were being lost.

There is, though, a pattern of diversification and expansion which is affecting areas beyond the main shopping and other areas:

- As noted earlier the number of shops in London was still expanding in 2019, and the fastest growth is outside the main shopping and other areas (other than OAs);
- Off-street shopping developments have been occurring across London in its main shopping areas and elsewhere;
- They account for 30% of the growth in shops since 2013, their rate of growth has been accelerating, and is most rapid outside town centres and high streets;
- At the same time the larger developments are disproportionately in the main shopping areas and OAs.

The infrequency of business rates revaluations, and the retention of 50% of rates by local authorities may be encouraging diversification. It gives local authorities an incentive to support proposals which develop new areas rather than upgrade existing areas.

There may be overdevelopment of retail shops in some areas

The retail sector is going through substantial change, and in 2019 there was both the opening of new shops in new areas, and the closure of shops in existing areas. It did not appear that the development of areas was in steady state. Both the number of shops and the number of vacancies had been increasing between 2015 and 2019 across London and 24 of its 33 local authorities. Total shopping units, that is open shops and vacancies, have been rising across the main shopping and other areas, other than the CAZ, and BIDs. Shop vacancy rates for all of these types of area have been rising since 2017.

To provide some perspective in 2019 the London shop vacancy rate was 9.0% and 3 percentage points lower than the rate for Britain. The vacancy rate for each of the main shopping and other areas was also lower than that for Britain.

At the same time, these vacancy rates were rising in benign economic conditions.

The spread of COVID-19 heightens some existing trends and brings additional challenges for the retail and leisure shops

- Demand for comparison and leisure shops is likely to fall. E-commerce stands to benefit, and owners of physical stores are well placed to switch to e-commerce
  - Demand is likely to fall where unemployment rises and spending power weakens;
  - Leisure activities have been affected by social distancing;
  - This may make it harder for town centres and high streets to manage further shop closures.

- There may be a further weakening of the relationship between the location of shops and where people work
  - People staying at home means there is less commuting, and this has been most marked for the CAZ;
  - There may be an opportunity for town centres and high streets nearer to where people live. An increased tendency for home working, even when the virus is less prevalent, may support any such tendency.

- Shopping and leisure activities were the most important reason for people to come to town centres and high streets. How well these places will withstand the challenges is not clear
  - It may not be possible to continue to diversify from retail to leisure activities especially where there is an oversupply of shopping units.

- The incentives to invest in the street environment may decline with a further downturn in comparison shops and a decline in leisure activities
  - People spend time in comparison and leisure shops, and less demand will reduce footfall.

- The continued implementation of the 2017 business rates revaluation will add to the costs of the retail sector.

- The new immigration regime will make it harder for retail businesses to recruit overseas leading to pressures to increase wages and higher costs.

Chapter 1 – Introduction

1.1 Overview

The retail sector receives a lot of media coverage. It has been central to the development of high streets and town centres, the definitions for which revolve around the presence of retail businesses. There is interest in the implications of the development of e-commerce, and a focus on threats to clothing chains and department stores. Concern is expressed for the viability of shops from the effects of rate revaluations and substantial increases in the minimum wage. There are consequences about the pick-up in company failures[4], the decline in the financial health of the sector[5], and for employees from the structural changes[6]. Often this analysis is conducted at a national level. This paper focuses on the sources of change as they affect London, and also looks at the consequences of the pressure on land use in the capital.

The GLA has considered some of these issues in a range of publications such as the Town Centre Health Check[7], Consumer Expenditure and Comparison Goods Retail Floorspace Need[8], High Streets for All[9], and the last GLA Economics publication on the retail sector in 2015[10]. It has published an assessment of the 2017 business rates revaluation[11]. This analysis draws on all this work and incorporates insights from the Centre for Cities[12], and the Office for National Statistics (ONS)[13]. It also, where appropriate, provides comparisons with the national picture, and with related sectors, notably Wholesale (which trades with businesses rather than households), and Accommodation and food services (which includes an important part of the leisure business).

The conclusion draws out some of the trends that have been discovered and considers how the Coronavirus might affect them. This does not monitor the effects on the retail sector while the infection has been prevalent, although there is other published analysis on what is happening. Another GLA Economics publication[14] has the latest evidence and analysis on the impacts of COVID-19 on London's economy. The Local Data Company (LDC) has published an assessment of what happened in the first half of 2020 across Britain[15]. Some of this is an acceleration of the trends reported in this paper particularly around the continued closure of comparison stores. The Centre for Cities[16] and the Institute for Fiscal Studies[17] find that there has been a further expansion of e-commerce, and that while spending nationally recovered after the first lockdown it did not fully recover in London. The purchase by online retailers of the fashion brands

[4] See Who's gone bust in Retail?
[5] See Retail Health Index | Retail Think Tank
[6] See Sorry, we're closed: Understanding the impact of retail's decline on people and places · Resolution Foundation
[7] See 2017 London Town Centre Health Check Analysis Report
[8] See Experian (2017), Consumer Expenditure and Comparison Goods Floorspace Need in London
[9] See High Streets for All
[10] See Retail in London: Looking Forward | London City Hall
[11] See the supplement to London's Economy Today - Issue 219 - November 2020 | London City Hall
[12] See Home | Centre for Cities
[13] See High streets in Great Britain 2020 and High streets in Great Britain 2019
[14] See COVID-19 and London's Economy - impacts and economic outlook - London Datastore
[15] See How COVID-19 has changed the UK retail landscape
[16] See How have coronavirus and lockdown impacted online shopping in cities? | Centre for Cities
[17] See The geographic impact of the pandemic on household spending - Institute For Fiscal Studies - IFS

of Debenhams and Arcadia but not their stores has been a watershed moment[18]. These developments reinforce the effect of some of the inferences in the conclusion.

1.2 Definition of retail

The broad scope of this analysis makes use of a wide range of data sources, which have different definitions of the retail sector, (Table 1.1).

The ONS uses a definition which reflects trade in goods with households[19], and so depends on the activity of the business. Trade might be by any means so as well as shops it includes all other channels such as markets, mail order, and, of course, the internet. The goods can be divided into comparison goods, such as books or CDs, or convenience goods. Convenience businesses often sell food or drink, such as grocers or bakers, but also include shops such as newsagents. For clarity, this paper describes this part of the retail sector as the retail goods sector.

The Valuation Office Agency (VOA) in its work to assess the rateable value of properties (or more exactly hereditaments) defines retail in terms of property use. It extends to services, such as barbers, and hairdressers[20]. Again, the coverage of businesses is broad, and includes retail warehouses, although many of these services can only be delivered in shops.

Public sector planners use a further definition of the retail sector based on use classes[21], which again is fairly broad, and different from those of the ONS and VOA. As there is no regular release of data by this classification it is not considered further in this paper.

This paper defines the retail sector as trade in goods and services irrespective of the means of delivery. The language of this paper seeks to be clear about the definition of retail in use.

Finally, there is the leisure sector, such as restaurants, bars, takeaway food stores, and bookmakers. This is included because these will be located in areas, such as high streets and town centres, and so provide a more complete picture of where consumers go to shop. The main source of data for this analysis comes from the LDC. Analysis in the Town Centre Health Check (TCHC) of retail space will be predominantly for shops on the assumption that other businesses will be using office space.

[18] See Boohoo buys Dorothy Perkins, Burton and Wallis for £25m | Boohoo | The Guardian
[19] This is based on the 2007 Standard Industrial Classification, see UK SIC 2007 - Office for National Statistics
[20] It also includes amusement arcades, and takeaway food outlets which in this paper are part of the leisure sector
[21] See Use Classes | Change of use | Planning Portal

Table 1.1: Definitions of the retail sector and shops

		Office for National Statistics	Valuation Office Agency	Town Centre Health Check Local Data Company
Goods	**Comparison**			
	Convenience			
Services				
Leisure				
shops or all sites		all sites	all sites	shops
available data		output jobs workplaces	retail units retail space rateable value	floorspace
lowest level geography		LSOA/MSOA	LSOA	town centre individual shop

Source: GLA Economics
Note: Lower Super Output Area (LSOA) and Middle Super Output Area (MSOA) are statistical geographies[22]

This paper looks across data sources to make conclusions supported by the range of available data. It is important to recognise that data sources have both strengths and weaknesses, and that outputs may not be strictly comparable for both definitional and measurement reasons. For example:

- There is no established convention to define the terms comparison, convenience, services, and leisure, so the definitions of data providers may not align exactly;
- There is no single approach to the classification of mixed used spaces. Some businesses have both business and household customers – they may be classified as Wholesale or Retail goods by ONS according to the majority of their business. Similarly, VOA faces a judgement when classifying a mixed-use property as an office or retail space.
- There is no single definition of a place of work. A shop, a VOA property, and an ONS workplace could all be different. For example, an office might be classified as such by VOA, while the ONS might classify it as a Retail goods workplace if that is the activity undertaken there.

[22] For an explanation of this geography see Appendix A of Transport expenditure in London 2020 | London City Hall

Table 1.2 tries to put this in perspective by providing counts for the different definitions of a business for the retail and leisure sectors. As expected, there are fewer shops than either workplaces or properties. Figure 1.1 provides the corresponding trends, and enables the drawing of some inferences about these definitions:

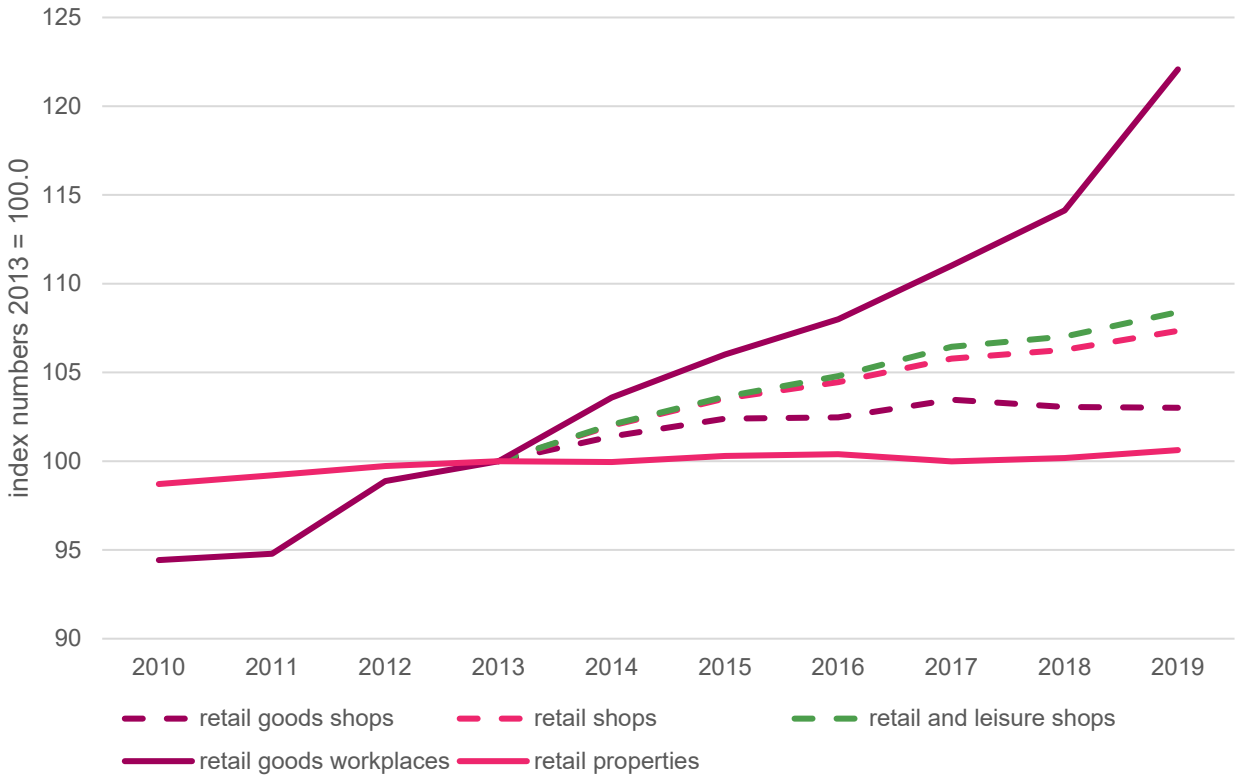
- Not all retail goods shops will be classified by ONS as retail goods workplaces. In 2013 there were fewer retail goods workplaces than shops. This may in part be because some shops serve both business and household customers and are classified as being in the Wholesale sector by the ONS.
- The VOA definition of properties is unlikely to include internet-only businesses as these will be in offices (when people are not working from home) and are likely to be classified as such. This would explain the slow growth in property numbers. This, in turn, suggests that the VOA definition of retail is largely shops, and is broader than the LDC definition.
- Properties is a more extensive definition than workplaces or shops as it includes vacant buildings.

Table 1.2: Measures of London business properties, retail and leisure sector, 2019

	shops	workplaces	properties
retail goods	44,459	50,845	
retail goods and services	71,440		91,560
retail and leisure	102,152		

Source: GLA Economics analysis of LDC data, ONS UK Business Counts, VOA
Note: VOA data for properties is for 2019/20

Figure 1.1: Trends in measures of London business properties, retail and leisure sector, 2010-2019, index numbers 2013 = 100.0



Source: GLA Economics analysis of LDC data, ONS UK Business Counts, VOA
Note: VOA data for properties is for 2010/11-2019/20

This paper also considers retail spending from a consumer perspective. Retail, of course, only covers part of this spending which extends to non-traded services such as transport, health, and education.

1.3 Structure of the paper

The rest of the paper has a number of chapters:

- Chapter 2 – Output, jobs, businesses and productivity
  - The retail sector makes an important contribution to the London and UK economies in terms of property numbers, output, businesses, jobs and productivity.
- Chapter 3 – Drivers of change: competition for land
  - London has had ever more jobs and a growing population. This is having a significant influence on the development of the retail sector.
- Chapter 4 – Drivers of change: consumer preferences, and technology
  - This chapter looks at how consumers are changing how they shop and where they shop, including the role of the internet.
- Chapter 5 – Drivers of change: rising costs
  - There are pressures on the retail sector from increases in the minimum wage, changes in the immigration regime as a result of Brexit, and business rates revaluation.
- Conclusion – Retail trends and COVID-19
  - The paper provides a baseline for retail trends up to 2019. The conclusion brings together some of the main trends identified, and how the outbreak of COVID-19 might have impacted on them.

There are also a number of supporting appendices:

- Appendix A – Productivity trends – drivers and measures
  - Reviews the impacts of innovations in information technology on the retail sector, and data limitations on productivity measurement for the sector.
- Appendix B – Analysis of factors influencing the distribution of shops across London
  - Reviews the range of factors which might influence the location of shops, both retail and leisure, and how this might evolve across London.
- Appendix C – Retail characteristics of the main shopping and other areas
  - Considers factors which might influence the types of shops and vacancy rates on numbers of shops.
- Appendix D – The evolution of off-street shopping developments and chains
  - Reviews the importance and change in shopping developments and chains.
- Appendix E – How the high street is evolving
  - Provides an overview of population and employment developments on the high street to provide context on the role of the retail sector.
- Appendix F – The resilience of retailing in the main shopping and other areas
  - Looks at trends in numbers of shops and vacancies for main shopping and other areas.
- Appendix G – Support for retail businesses through the business rate system
  - Reviews how reliefs, exemptions, and discounts in the business rate system are working as they affect the retail sector.

Chapter 2 – Output, jobs, businesses and productivity

2.1 Overview and main findings

This chapter looks at the contribution of the retail sector to the London and UK economies in terms of property numbers, output (Gross Value Added (GVA) measure), businesses, jobs, and productivity. There are comparisons of trends with the Wholesale sector and Food and beverage service activities, and for the areas of London. Appendix A, Productivity trends – drivers and measures, addresses the issues of why the opportunities of information technology may only have been partially taken, and the data limitations in measuring productivity.

Over the last 50 years it has been the wider performance of an area which has tended to be important to the health of the retail sector rather than the reverse. Retail activity has tended to concentrate where economic activity is rather than where people live. This may, in part, be because shoppers can make use of public transport links for major trips, and because tourists are important for some shops in the CAZ.

Retail goods output is growing in London, at a faster rate than nationally, but also as a declining share of the London economy:

- Retail goods output is growing faster than in the UK, and by 3.7% a year between 2010 and 2018;
- The sector, though, is declining as a share of the London economy from 4.6% in 1998 to 4.2% in 2018, despite becoming more important to the UK economy.

The retail sector in London has remained stable at an aggregate level:

- The retail floorspace requirement in London has been stable over time and was 22% of total floorspace in 2019/20. It is second only to office space in numbers of properties;
- Traditional retail goods business numbers were growing, and have been flat since 2017.

Even though it is a low productivity sector the productivity level of the retail goods sector in London is 30% higher than the national average.

There has been productivity growth in London since 2010:

- The retail goods sector has moved eastwards across London over the last 50 years with the growth in business service jobs. The evidence supports the conclusion that it is the wider performance of an area which is important to the health of the retail sector;
- Retail goods output growth has been concentrated in inner London, and productivity growth has doubled in inner London – west over the years 1998-2015. The productivity level of this sub-region of London is 50% higher than the other sub-regions of the capital. It is where the larger businesses are concentrated;
- Productivity growth has been driven by Westminster, and seems to be a consequence of greater pressure on the use of space in the centre of London;
- In terms of comparator sectors there has also been productivity growth in the Wholesale sector since 2012, although productivity levels remain below 2008 levels, and productivity has been falling in Accommodation and food services.

The expansion of e-commerce is the most likely explanation of the growth in UK productivity from 2017. This is also likely to have contributed to London productivity growth:

- The available evidence suggests that the full benefits of technological change, such as the use of information technology or automation, have not been reaped;
- It is only with an enhanced competitive threat from internet-only businesses that productivity growth picked up;
- There has been continued growth in retail goods enterprises in London and from 2016 this was almost entirely internet-only businesses;
- They have increased by 10,495 since 2010 to 38,670 enterprises in 2019;
- And 70% of the growth in internet-only businesses has been since 2016;
- Although technological change has both created and destroyed jobs, retail goods jobs appear to have peaked in London in 2015.

There are sections on:

- London and UK comparisons
- Sector-wide comparisons
- Comparisons across areas of London

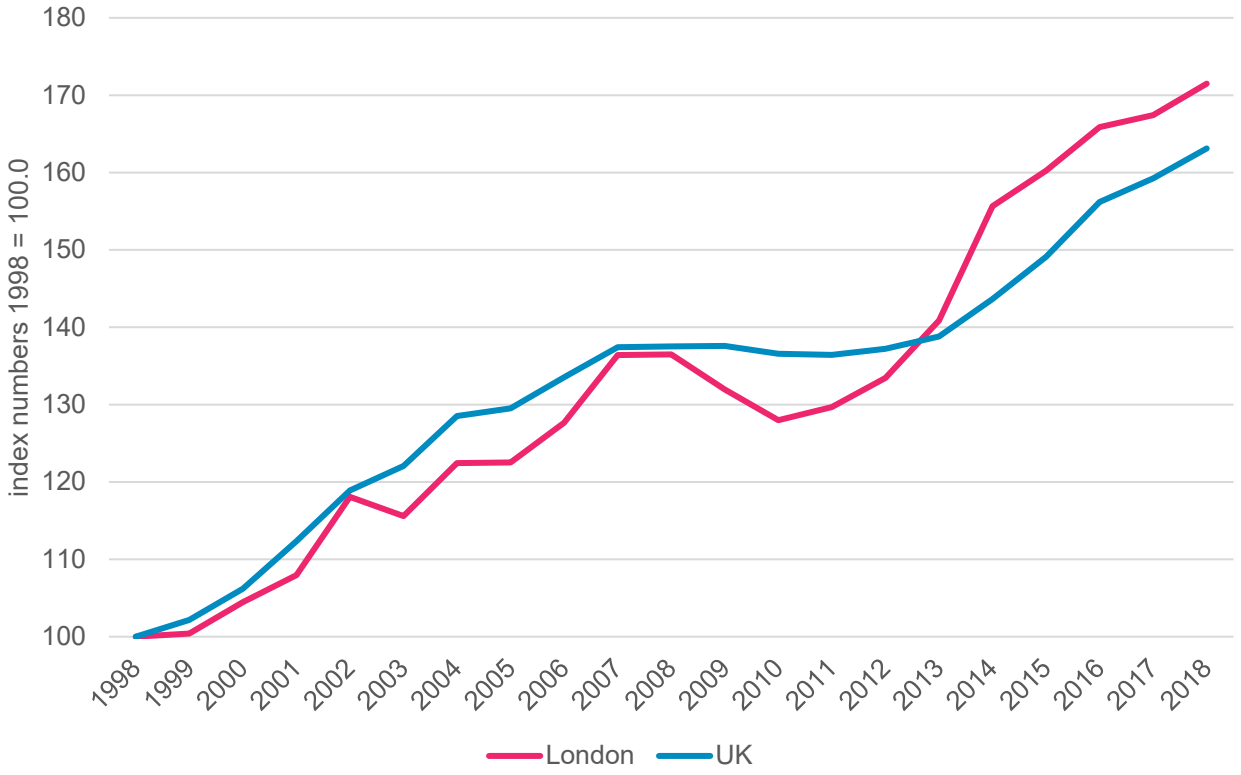
2.2 London and UK comparisons

2.2.1 Output

The output of the retail goods sector continues to grow, and growth has been stronger in London than the UK. In the period 1998 to 2008 growth for the London economy was below that of the UK economy, and it suffered comparatively in the recession that followed. In the period from 2010 to 2018, though, growth in London, 3.7% a year, has exceeded that of the UK, 2.2% a year. For the entire period 1998-2018 annual growth in London has been 2.7% compared with 2.5% for the UK, (Figure 2.1).

Figure 2.1: London and UK retail goods GVA, 1998-2018, index numbers 1998 = 100.0

Retail goods sector growth has been stronger in London than the UK since 2010

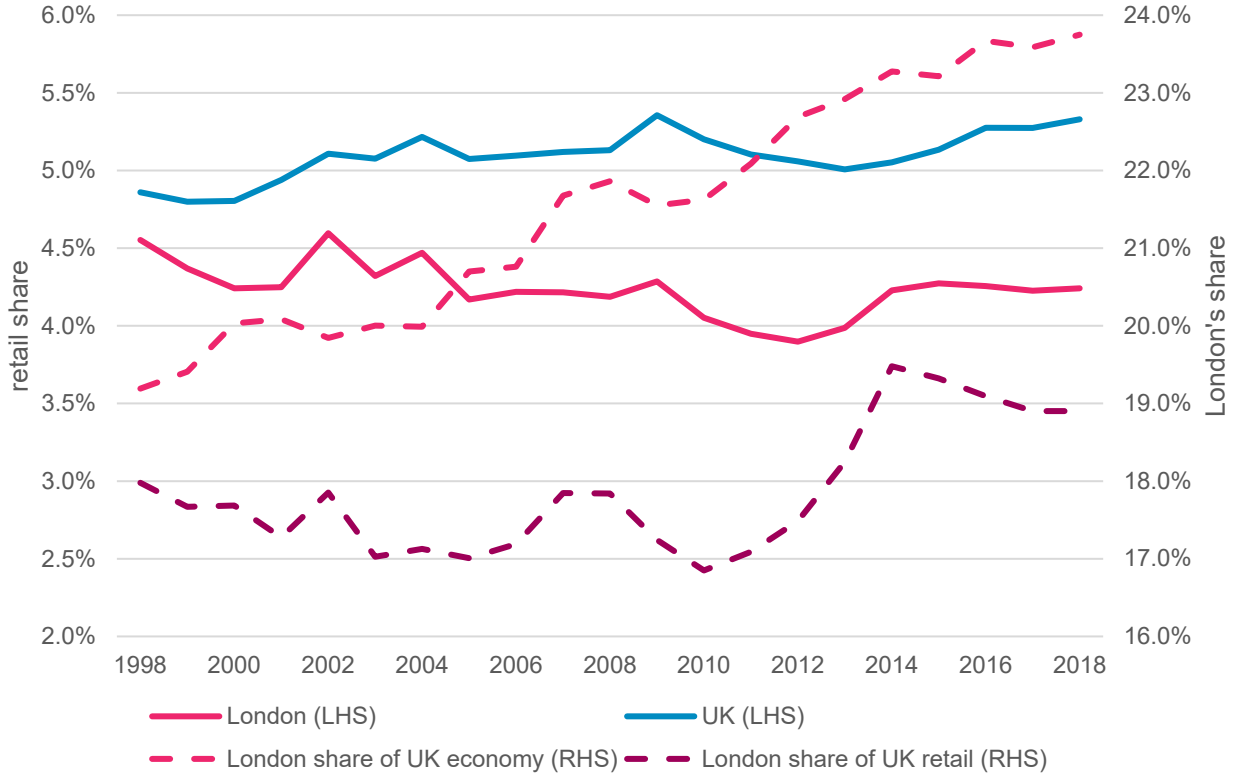


Source: ONS regional GVA statistics

Growth in the retail goods sector has not maintained pace with the London economy. Over the 20-year period 1998-2018 the London economy has grown as a share of the UK economy from 19% to 24%, while the share of the retail goods sector in London has declined from 4.6% to 4.2%. Similarly, London was responsible for a declining share of the UK retail goods sector falling from 18% in 1998 to a little under 17% in 2010 before rising strongly to 19.5% in 2014, and declining again to slightly below 19% by 2018. In contrast the retail goods sector has become more important to the UK economy, its share rising from 4.9% to 5.3%, (Figure 2.2).

Figure 2.2: London and UK retail goods share of their economies, London share of UK retail, and London share of UK economy, 1998-2018

The retail goods sector has declined in importance in London as its economy grew



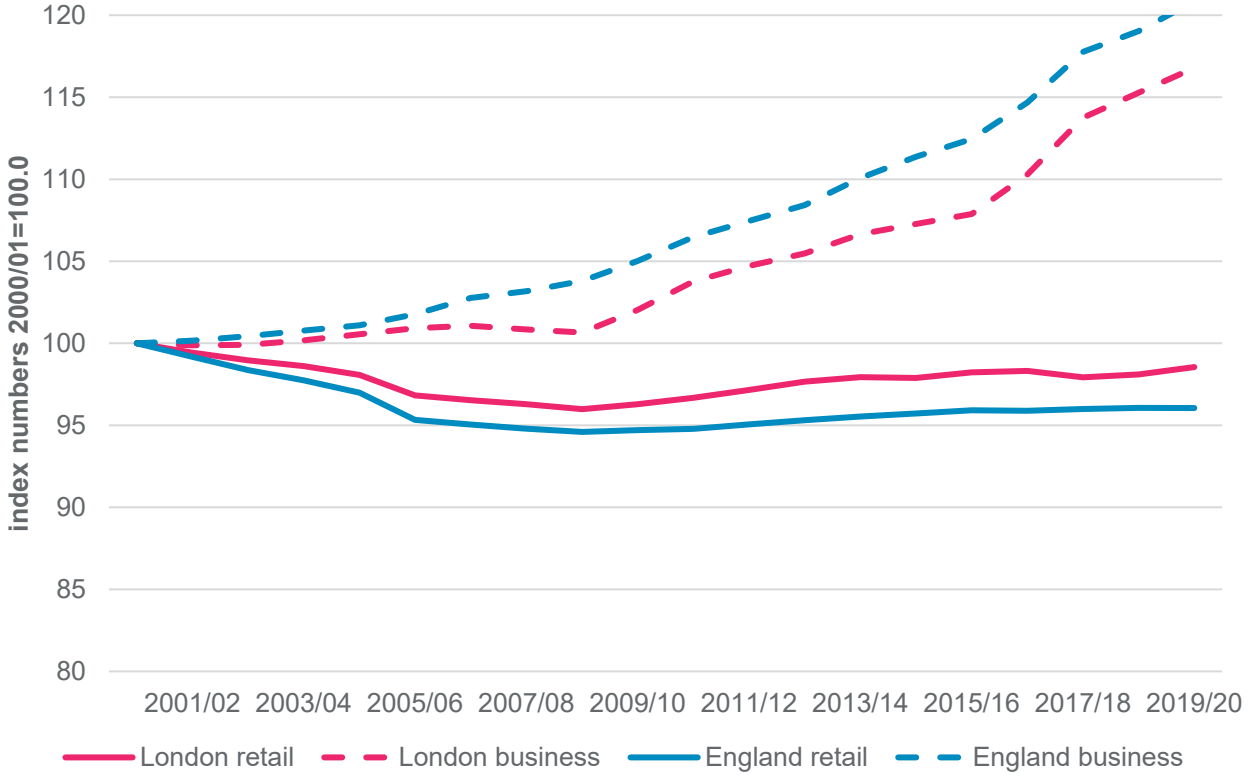
Source: ONS regional GVA statistics

2.2.2 Businesses

One measure of the number of businesses is retail properties – VOA data provides the closest proxy to the retail sector as defined in this paper. In comparison with economic growth the numbers of retail properties in 2018/19 was below the numbers in 2000/01 for both London and the UK. This is despite an overall growth in the number of business properties of over 15% in London, and nearly 20% in England, (Figure 2.3). In consequence over this period the share of retail properties has declined in both London and England, from 33% to 29% in London, and from 31% to 25% in England.

Figure 2.3: Retail and business properties London and England, 2000/01 to 2018/19, index numbers 2000/01 = 100.0

Retail property numbers in London have stagnated despite overall growth in business properties



Source: VOA

The ONS provides direct estimates of businesses for retail goods. It does this for local units, or workplaces, and enterprises. An enterprise might have several workplaces. Workplaces are more comparable with the measure of properties above, although as Chapter 1 notes there are differences in the definition of the term retail. The analysis here is for enterprises. The advantage of using enterprises is that it captures more intuitively the notion of a business and is easier to interpret in this context. As an enterprise may have several local units, changes over time in the number of workplaces will reflect changes within enterprises as well as changes in the number of enterprises.

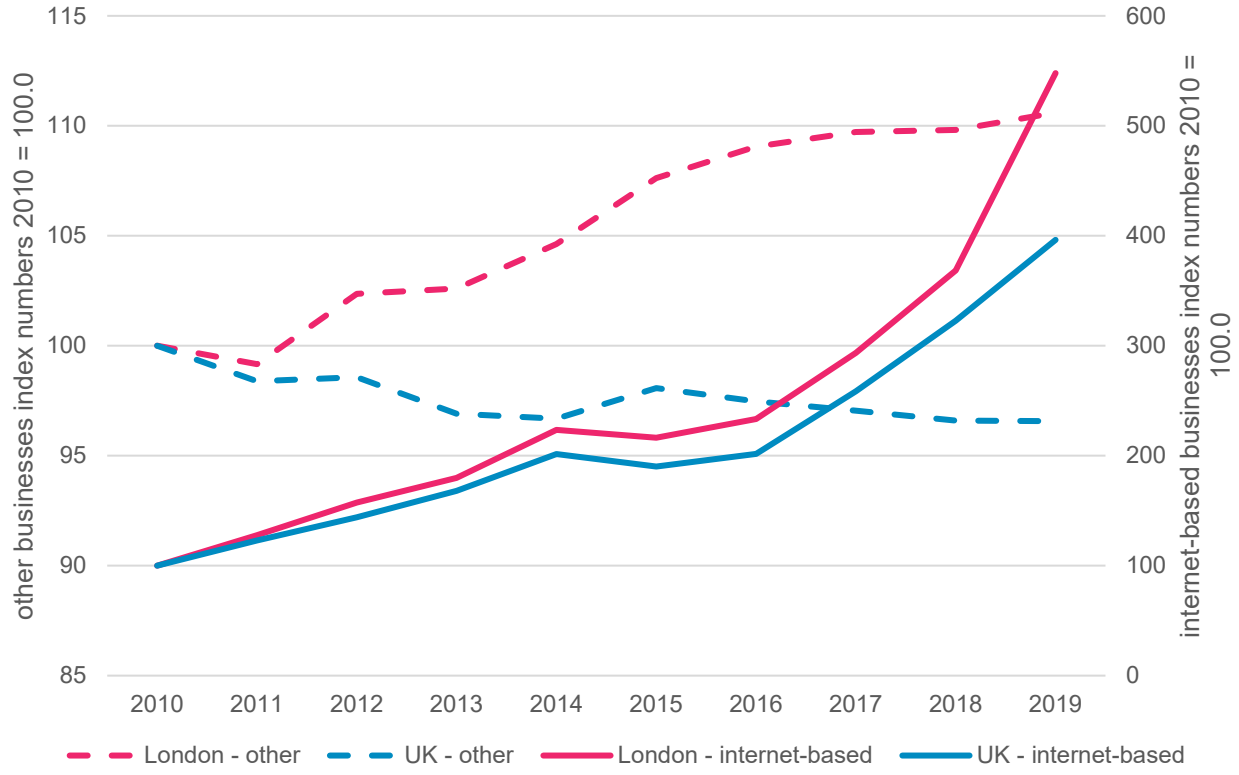
There has been growth in the number of retail goods enterprises[23] in London and the UK over the period 2010-2019. In London, this has been by 10,495 businesses to 38,670 in 2019, and in the UK by 20,440 businesses to 208,760. Almost all of this growth for both geographies can be accounted for by internet-based businesses – these are businesses which only have an internet-based[24] operation and excludes shops which also have an internet presence. (Other businesses may or may not have a virtual presence as well as a physical presence.) And 70% of the growth in internet-only businesses has been since 2016. Growth in this sub-sector has been stronger in London than the UK. In London there has been modest growth in non-internet-based businesses, while in the UK there has been a decline, (Figure 2.4). This provides an indication of re-structuring within the retail goods sector.

[23] Some of these businesses have no employees.

[24] The category of internet-based businesses also includes mail order houses, although they make up a very small part of total numbers

Figure 2.4: Retail goods enterprises, internet-based and other, London and UK, 2010-2019

Retail goods enterprises are growing in London driven by internet-based firms

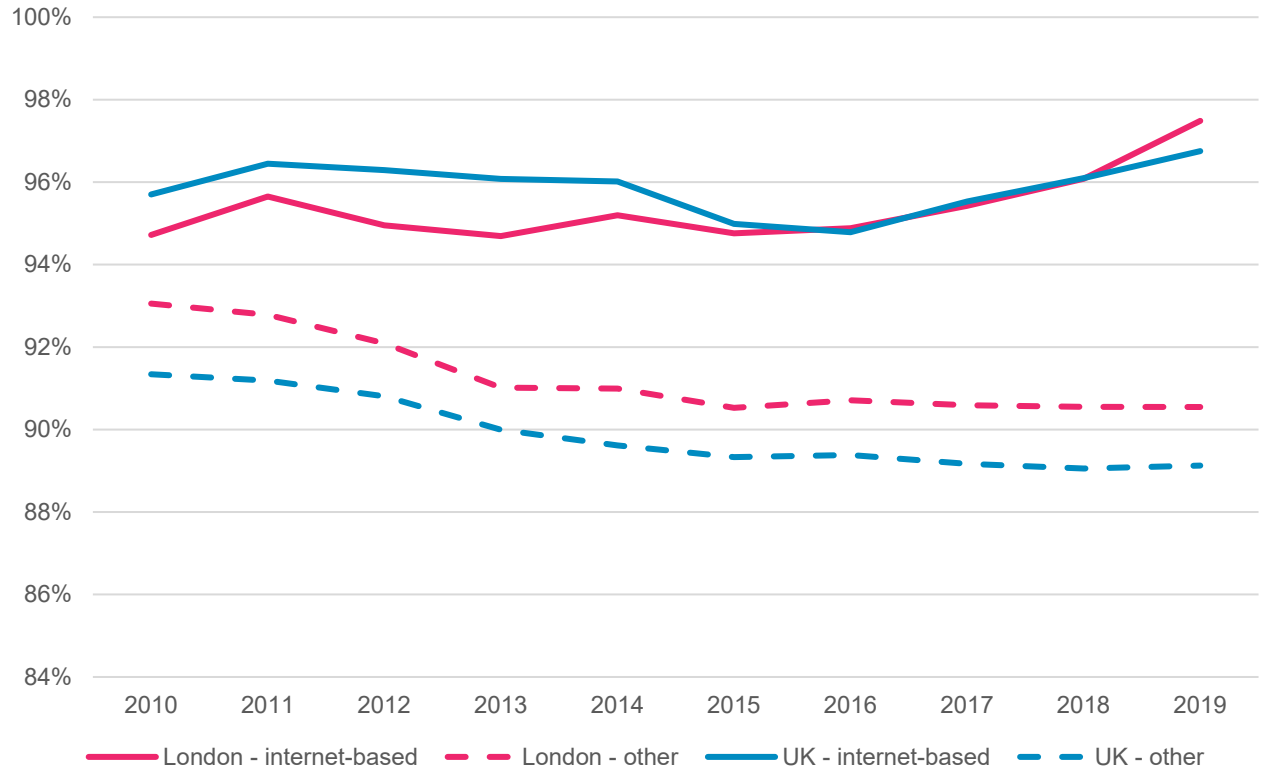


Source: ONS UK Business Counts

Marginally over 90% of retail goods enterprises are micro-businesses with fewer than 10 employees in both London and the UK. By 2019 this had risen to 97% of internet-based enterprises in both London and the UK. The proportion has been falling for other enterprises, (Figure 2.5).

Figure 2.5: Share of retail goods micro-enterprises, internet-based and other, London and UK, 2010-2019

Over 90% of retail goods enterprises are micro-businesses with fewer than 10 employees



Source: ONS UK Business Counts

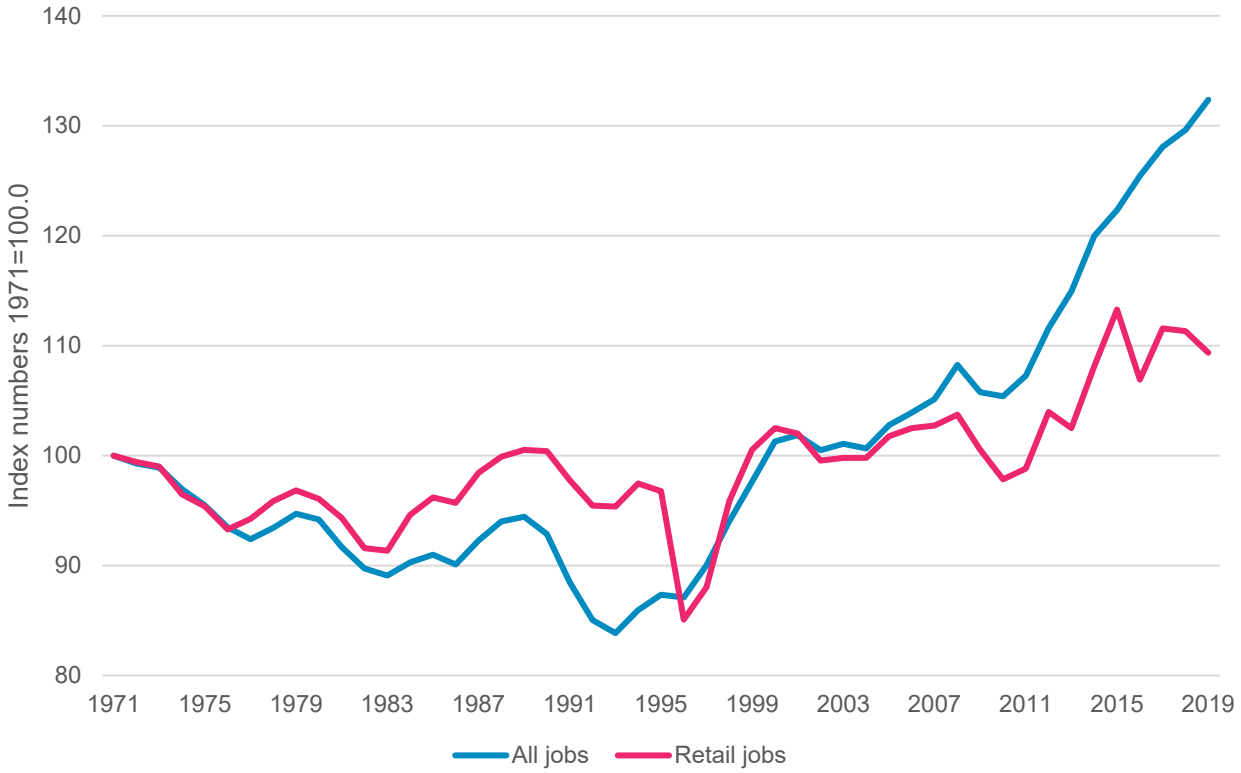
There has been growth in the numbers of retail goods enterprises across the size bands of micro, small (10-49 employees), medium (50-249 employees), and large (250+ employees) for both London and the UK between 2010 and 2019.

2.2.3 Jobs

While retail goods output and businesses have been rising jobs in the sector peaked in 2015. Between 1971 and 1999 the growth in retail goods jobs exceeded that for all London jobs. Subsequently there has been growth in retail goods jobs, noticeably after the 2008 recession, but it would appear that this has now gone into reverse, (Figure 2.6). In 2019 there were 446,000 retail goods jobs out of 6.1m jobs in London, or 7.4% of all jobs. This is slightly below the 462,000 jobs at the peak in 2015. It compares with 408,000 retail goods jobs in 1971, which was 8.9% of all 4.6m jobs in London.

Figure 2.6: Workforce jobs in London, all jobs and retail jobs, 1971-2019

Retail goods jobs have peaked while all jobs in London continue to grow



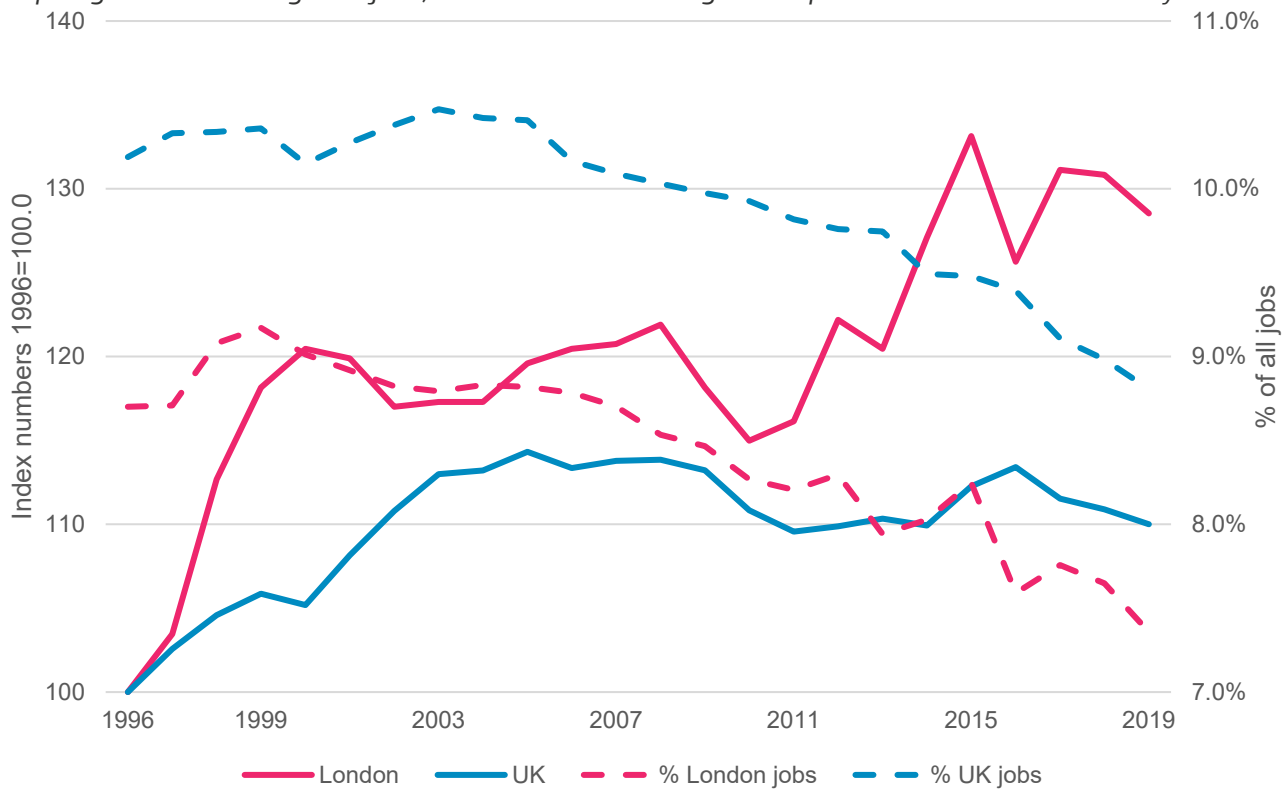
Source: ONS Workforce jobs, and GLA London jobs series

Despite retail goods jobs growing more strongly in London than the UK since 1996[25] as a share of jobs the sector has been in decline in both London and the UK, (Figure 2.7). In London the retail goods sector has declined from 10.1% of jobs in 1993 to 7.4% in 2019. For the UK the decline has been from 10.5% of jobs in 2003 to 8.8% in 2019, that is 3.1m retail goods jobs out 35.2m jobs.

[25] The first year for which there is UK data

Figure 2.7: London and UK retail goods workforce jobs, 1996-2019, index numbers 1996 = 100.0 and share of all jobs

Despite growth in retail goods jobs, the sector is becoming less important to London's economy



Source: ONS Workforce jobs

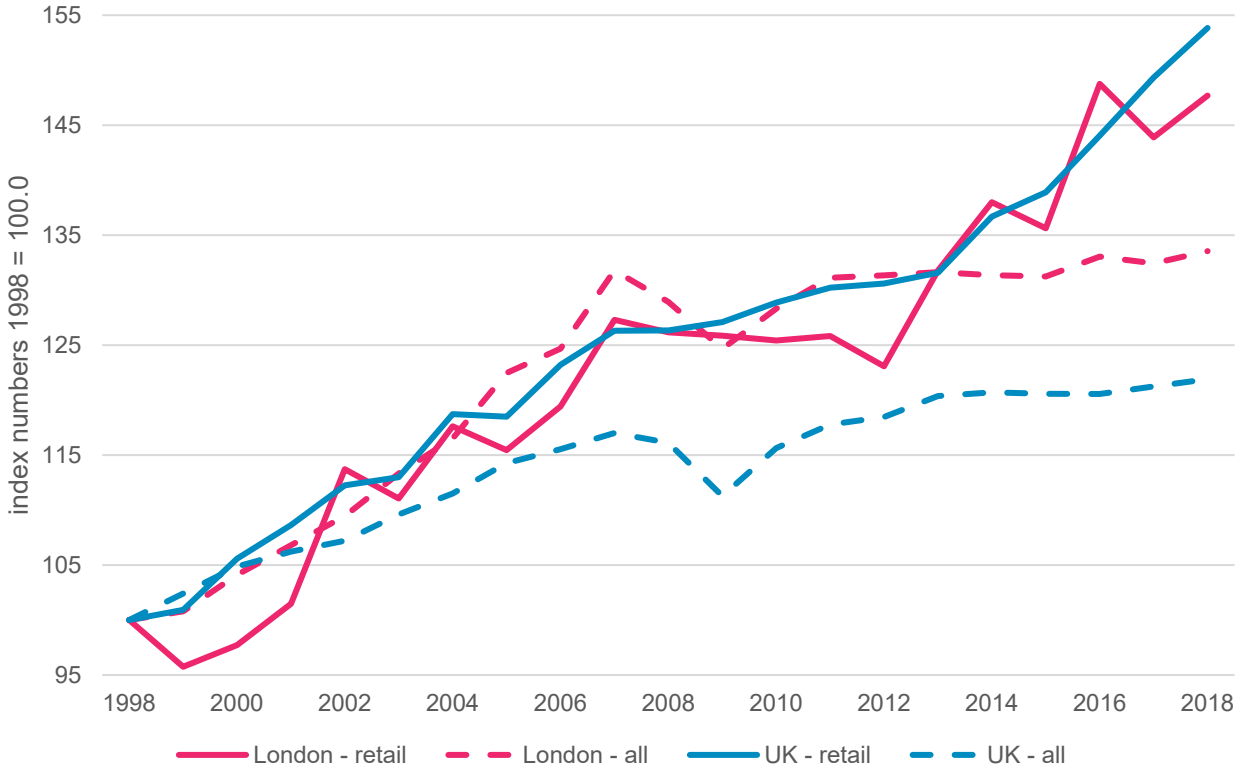
Appendix A concludes that new technology has offsetting effects on employment. Jobs in the retail sector are at particular risk of automation. The latest evidence is that jobs have reduced in some occupations particularly at risk, while they have increased in others. It is also not clear to what extent new jobs in internet-related activities will add to existing jobs in the retail goods sector or be at the expense of them.

2.2.4 Productivity

Increasing output and declining jobs points to rising productivity (as measured by GVA/ workforce job). In London, following a dip after the 2008 recession it has been rising since 2012. There has also been an acceleration in UK productivity growth since 2013. This contrasts with poor economy-wide productivity growth in London and the UK since 2011. In the ten-year period to 2008 retail productivity growth in London was similar to the trend for the city, while for the UK the retail goods sector lagged behind the broader economy, (Figure 2.8).

Figure 2.8: London and UK retail and whole economy productivity (GVA/ workforce job), 1998-2018, index numbers 1998 = 100.0

Recent London retail productivity growth (GVA/workforce job) is stronger than the economy average

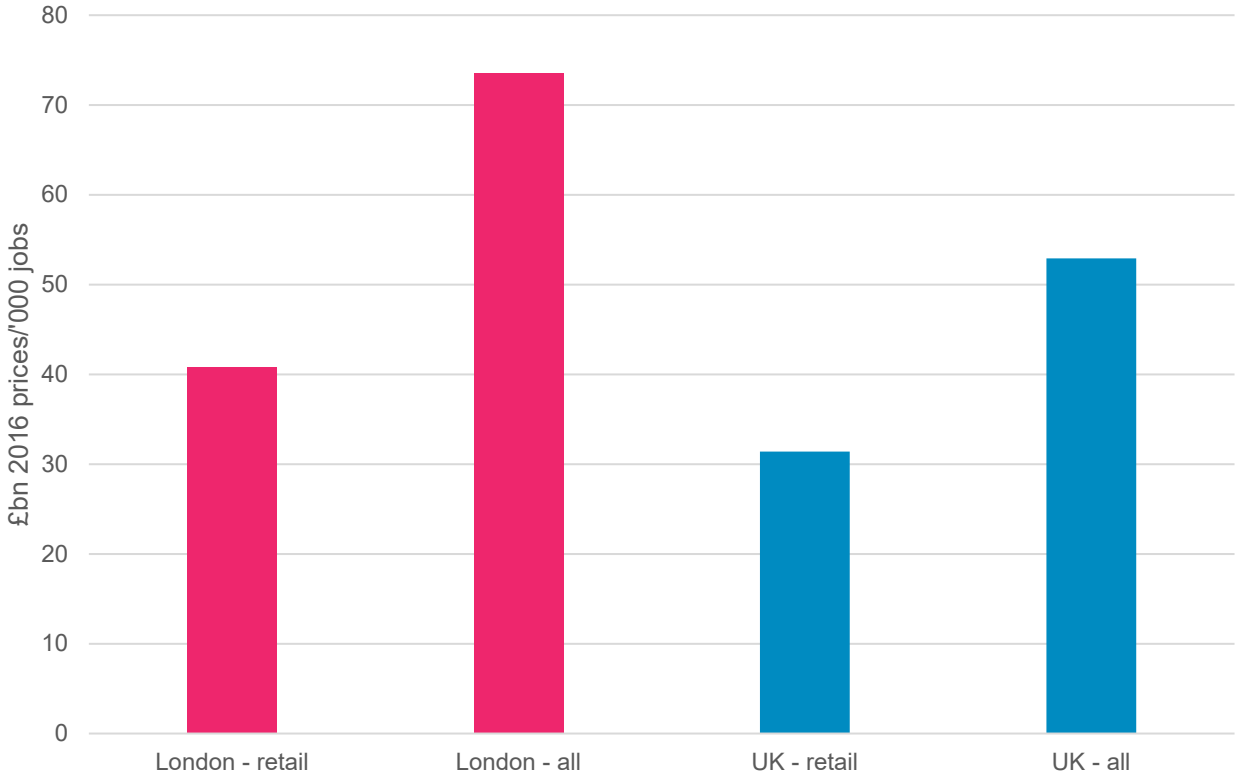


Source: GLA Economics calculations using ONS GVA regional GVA statistics, and workforce jobs

The productivity level of the retail goods sector in London is 30% higher than the national average in 2018. Productivity for London as a whole is 40% higher than in the UK. Retail goods, though, is a low productivity sector. In London it is 55% of the city level, and nationally the ratio is 60%, (Figure 2.9).

Figure 2.9: Productivity (GVA/workforce job) levels for London and the UK, retail goods and whole economy, 2018

Retail goods is a low productivity sector, but productivity levels are higher in London



Source: GLA Economics calculations using ONS GVA regional GVA statistics, and workforce jobs

This is the measure of productivity commonly used for regional analysis as this data is available. A better measure is output per hour, as hours worked more closely reflects effort. This data is available for the UK, and reported at Appendix A. It also finds that there has been a surge in retail goods productivity growth, but only after 2017.

Appendix A provides some conceptual analysis of how new technology might be incorporated in the retail sector, and support productivity growth. In summary, the retail sector has and will likely continue to be affected by new technology, including information technology. There are various ways the sector might develop, and this will impact on the incentives to adopt technology. The new technology has enabled the establishment of new companies, particularly internet-only companies, and an internet presence for existing companies. This has increased competition, and so price competition, in the marketplace. There is reason to believe that the full benefits of new technologies have not been reaped. This may, in part, be down to demand conditions across the economy.

Consistent with this technological change has not been an important enabler for market entry into the traditional retail goods sector, but it has created a significant competitive threat from internet-only businesses. This part of the retail goods sector started growing strongly from 2015, and so might have provided an important spur to productivity growth.

2.3 Sector-wide comparisons

This is possible using the ONS retail goods definition based on activities, or the VOA retail properties definition based on use.

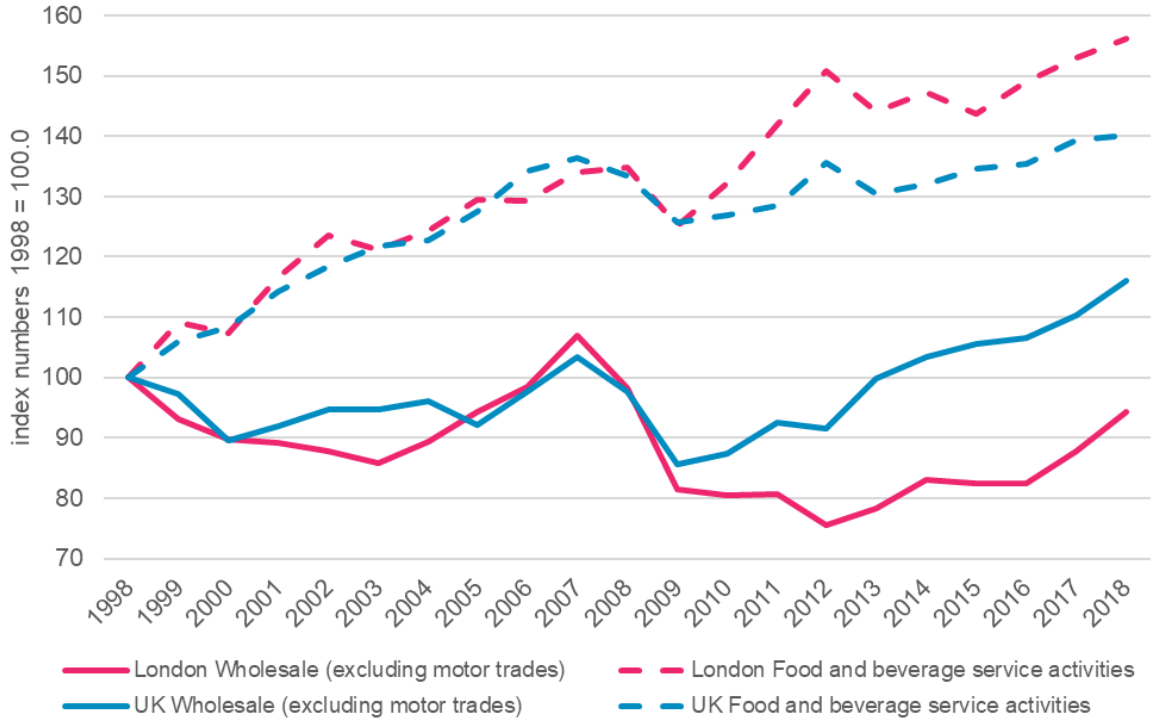
2.3.1 By activity

A way to put in context developments in the retail goods sector is to consider them in relation to other parts of the economy. It has already been mentioned that the Wholesale sector provides a comparison because it is the equivalent of retail goods in supporting business. Food and beverage service activities are an important leisure activity on the high street, and so a substitute for household expenditure.

Figures 2.10 and 2.11 report trends in output (GVA), and jobs for London and the UK. In broad terms since 1998 output and jobs have increased little or fallen for the Wholesale sector, while for Food and beverage service activities there has been strong growth for both London and the UK. For London, Wholesale in London has been in decline by both measures since 1998, which may partially be because London markets can be served from outside London to free up space for activities which would benefit more from locating in the city[26]. Food and beverage service activities may be profiting from the growth in London's population, and the wider growth in the leisure sector identified later in this paper. Output growth in food and beverage service activities has been comparable with, if less, than that for the retail goods sector in London and the UK. Jobs growth has been higher in Food and beverage service activities.

Figure 2.10: Output (GVA) of Wholesale and Food and beverage service activities, London and UK, 1998-2018, index numbers 1998=100.0

Output (GVA) growth has been relatively strong in Food and beverage service activities if not as strong as for the retail goods sector in London and the UK

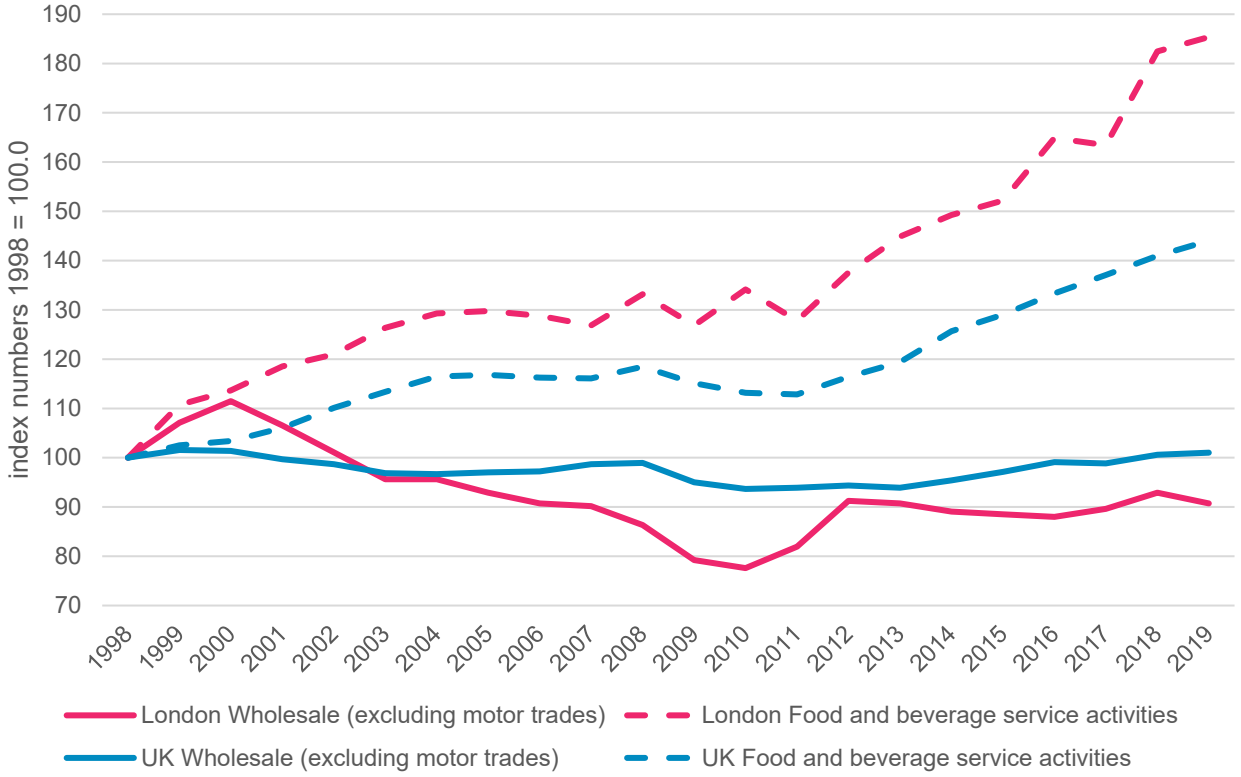


Source: ONS GVA and Workforce Jobs series

[26] The findings of the GLA London Industrial Land Demand report support this conclusion

Figure 2.11: Jobs of Wholesale and Food and beverage service activities, London and UK, 1998-2019, index numbers 1998=100.0

Jobs growth has been stronger in Food and beverage service activities than for the retail goods sector in London and the UK



Source: ONS GVA and Workforce Jobs series

As a consequence of the lack of output growth in the Wholesale sector, it has been overtaken in size by the retail goods sector. In 1998 London output of retail goods was worth £10.8bn (in 2016 prices), while for Wholesale it was £13.0bn. By 2018 the retail goods sector had grown to £18.5bn (in 2016 prices), and the Wholesale sector remained at £12.3bn. Food and beverage service activities has always been smaller and was worth £8.7bn in 2018.

There are more jobs in the retail goods sector. In 2019 there were 446,000, compared with 380,000 for Food and beverage service activities, and 166,000 for the Wholesale sector.

Despite the more sanguine performance of the Wholesale sector productivity has been rising since the 2008 recession, although for London it remains some way off its pre-recession peak. In contrast, productivity has been declining for Food and beverage service activities for both geographies since the 2008 recession, (Figure 2.12).

Figure 2.12: Productivity (GVA/job) of Wholesale and Food and beverage service activities, London and UK, 1998-2018, index numbers 1998=100.0

Since 2012 productivity (GVA/job) in the Wholesale sector has been rising in both London and the UK, and remains below its London peak

Source: ONS GVA and Workforce jobs series

This suggests that that the retail goods sector has been doing comparatively well relative to comparator sectors both in terms of increasing output and productivity. It may have been able to make more effective use of new technology than the Wholesale sector and has maintained more control over job numbers than Food and beverage service activities. The retail goods sector has appeared to have maintained more of a presence in the capital than the Wholesale sector. This may have mitigated the consequence of job losses.

2.3.2 By property use

As noted earlier, retail properties have been in relative decline in London, although there were more retail properties than any other commercial type until 2016/17. They have remained fairly stable in number at around 92,000 between 2000/01 and 2019/20. Property growth has been driven by office properties. In this period office properties have increased from 66,000 to 109,000 which has driven an increase in total commercial properties from 278,000 to 325,000, (Figure 2.13).

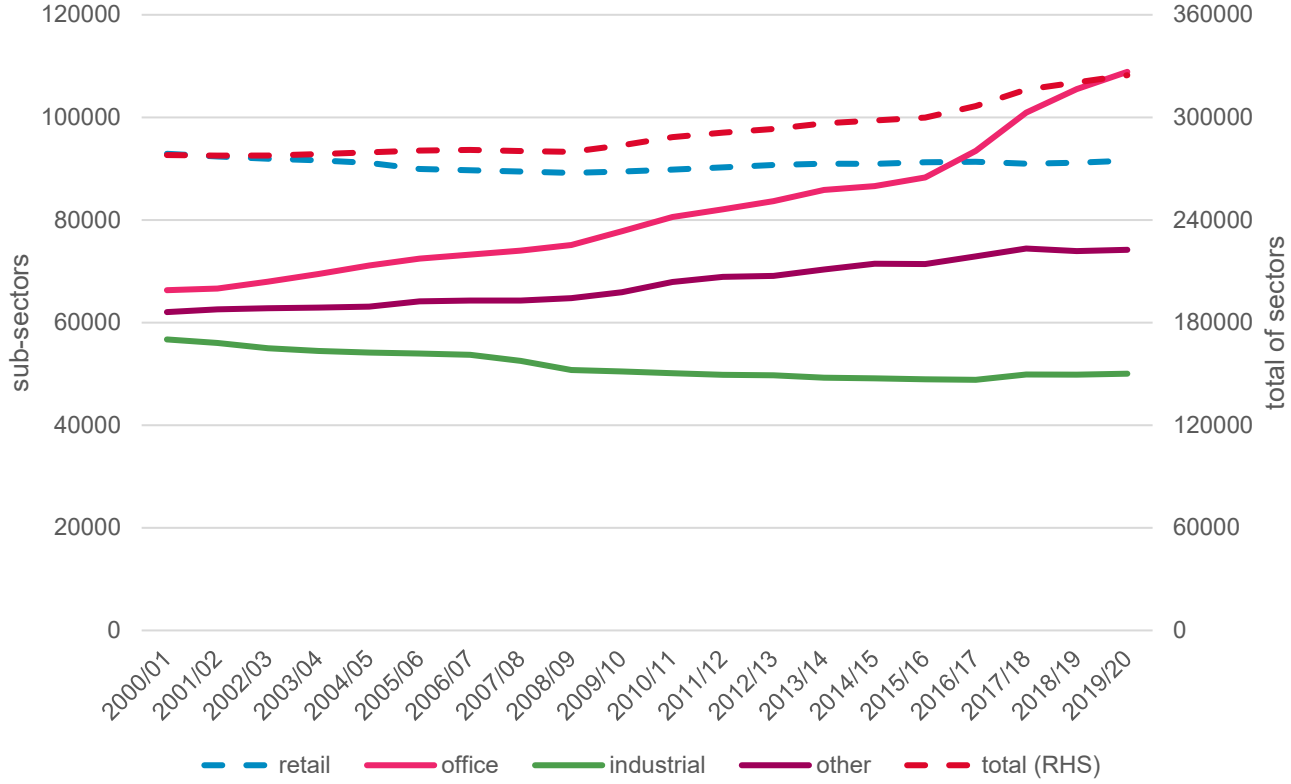
The only sector where there has been an absolute decline is the industrial sector from 57,000 properties in 2000/01 to 50,000 in 2019/20. The GLA London Industrial Land Demand report[27] concluded that there has been a decline in demand for industrial land for Manufacturing as this industry declines, and in the post-recession period growth in warehouse space appears to have levelled off. It is not clear to what extent this

[27] See GLA London Industrial Land Demand report

warehouse space serves households, and is part of the ONS retail goods sector, or businesses, and so is part of the ONS Wholesale sector.

Figure 2.13: London VOA business properties, and by sub-sector, 2000/10-2019/20

Retail property numbers in London remain stable, and it was the largest sector until 2016/17

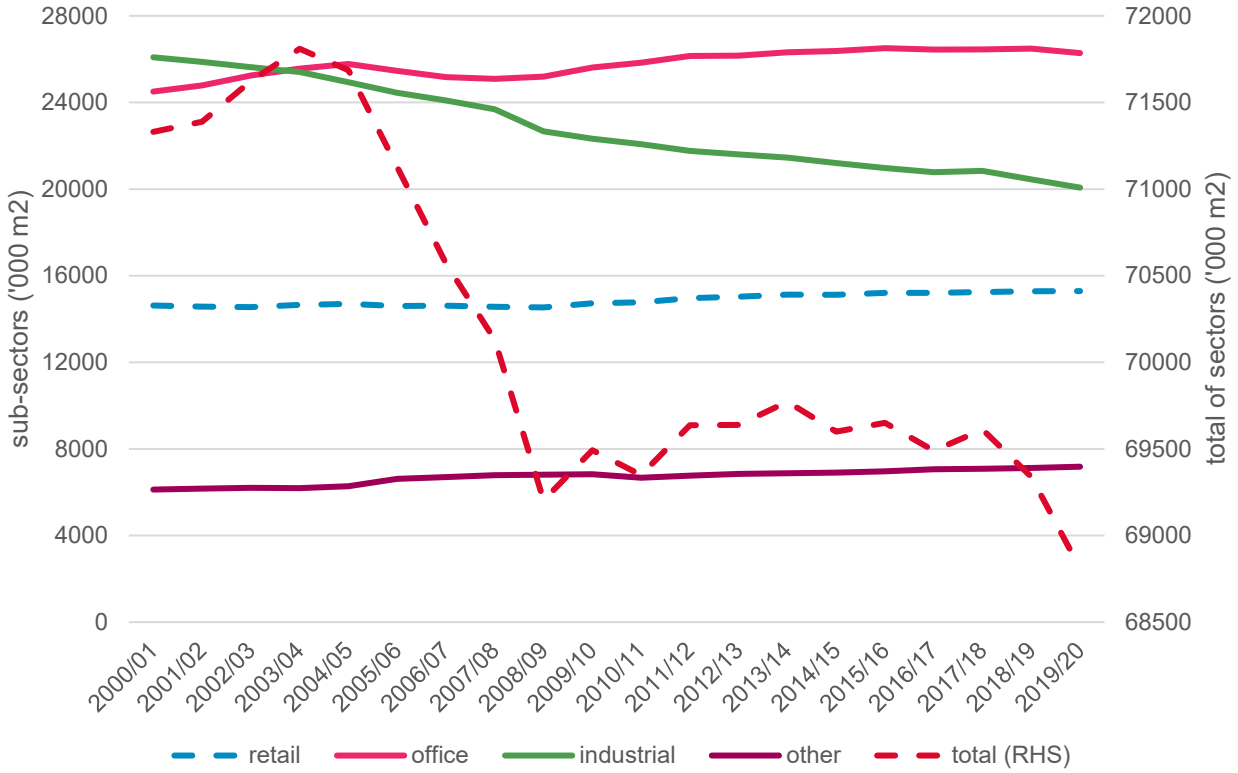


Source: VOA

There are similar trends for business property floorspace. Industrial land floorspace has declined by 6m metres squared and overall floorspace had declined by 2.5m metres squared to 69m metres squared between 2000/01 and 2019/20, (Figure 2.14) – this is likely to have been mainly taken up by housing. In 2003/04 office floorspace exceeded industrial land for the first time, and both remain more significant than retail floorspace across London. Retail floorspace has risen from 20% of total floorspace in 2000/01 to 22% in 2019/20.

Figure 2.14: London VOA business property floorspace, and by sub-sector, 2000/01-2019/20

Retail property floorspace has remained stable

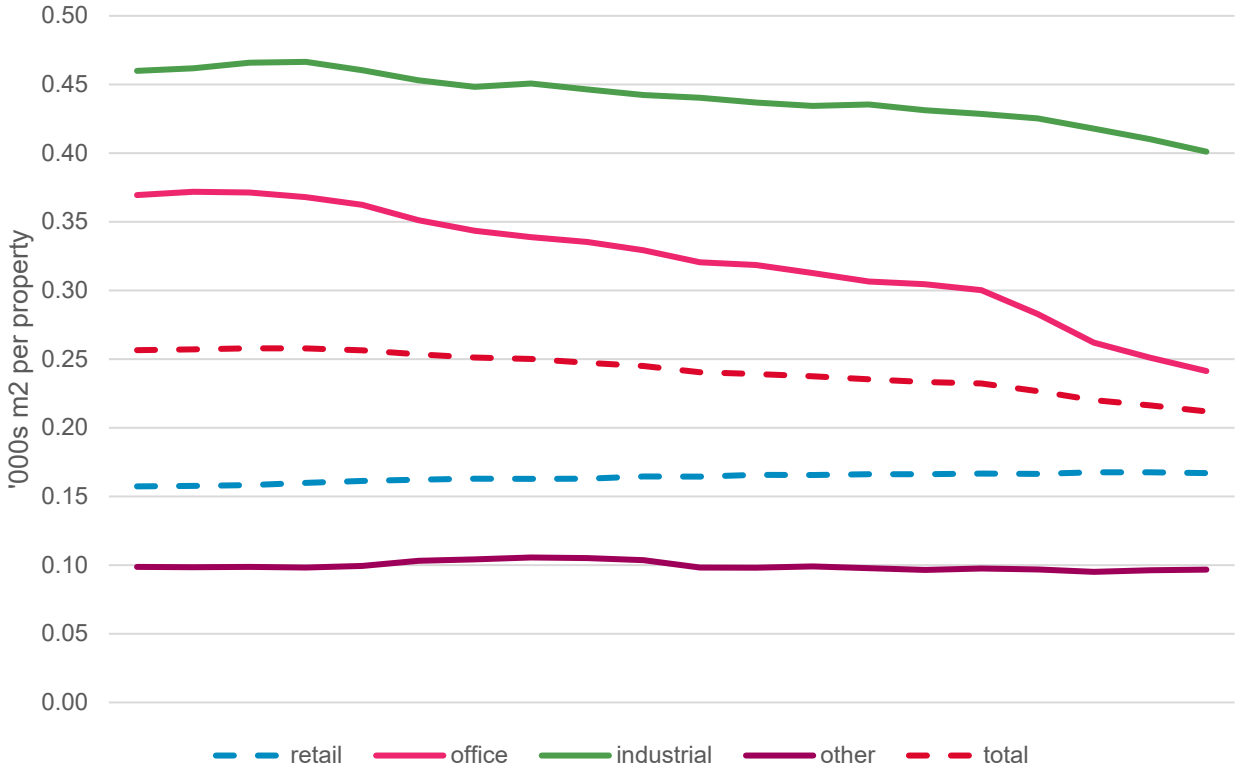


Source: VOA

Consequently, business floorspace per sector has been declining across sectors except for the retail sector where it has risen slightly but remains at around 160 metres squared per property, (Figure 2.15). This is below the average for London, and that of the office and industrial sectors.

Figure 2.15: London VOA business floorspace per property, and by sub-sector, 2000/10-2019/20

Retail floorspace per property has remained stable bucking the trend of other sectors



Source: VOA

2.4 Comparisons across areas of London

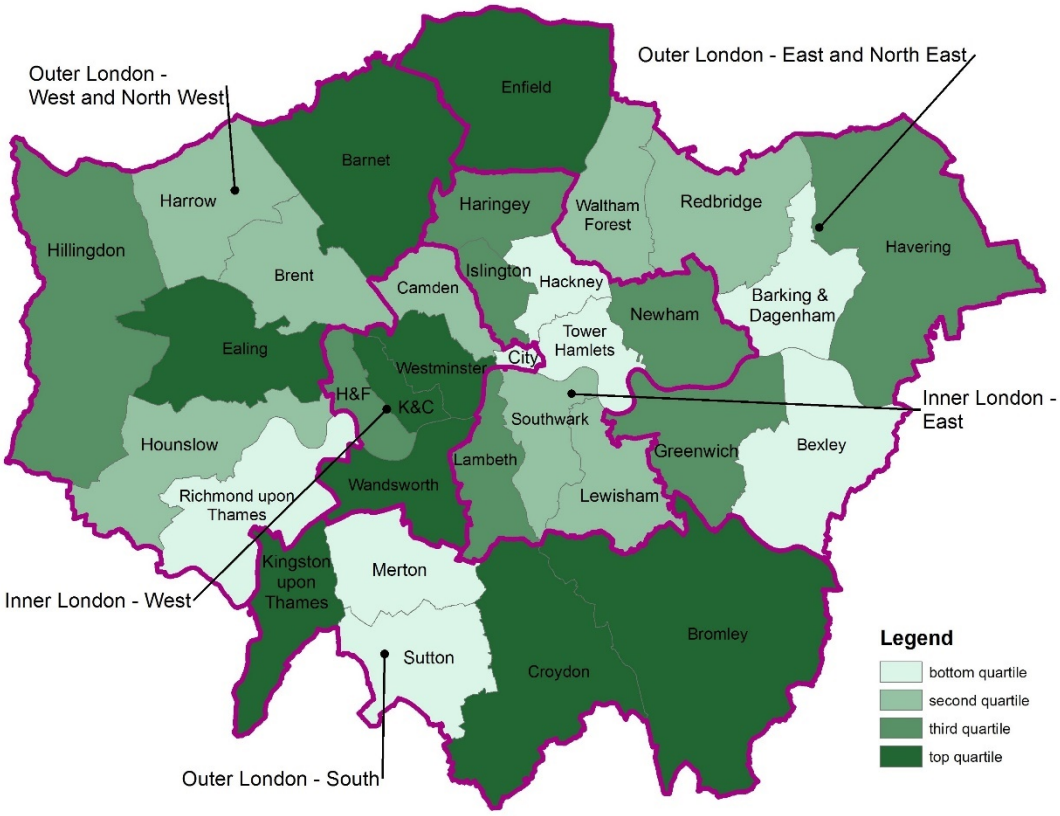
2.4.1 The distribution of activity and changes over time

Over time in terms of employee jobs the retail goods sector has moved westwards across London. This parallels the relative growth in employee jobs across the capital[28]. In 1971, there was a concentration of jobs in the centre, north and the south of the city, (Map 2.1). By 1989, there had been a westward shift towards the airport, (Map 2.2), and by 2015 the relative importance of shops in the east had diminished further, (Map 2.3). The exception is Newham, and this may be because of the development of the Stratford area, and the opening of the Westfield shopping centre.

[28] See London's boroughs - Borough by sector jobs, data and methodology | London City Hall

Map 2.1: Distribution of retail goods employee jobs across London, 1971

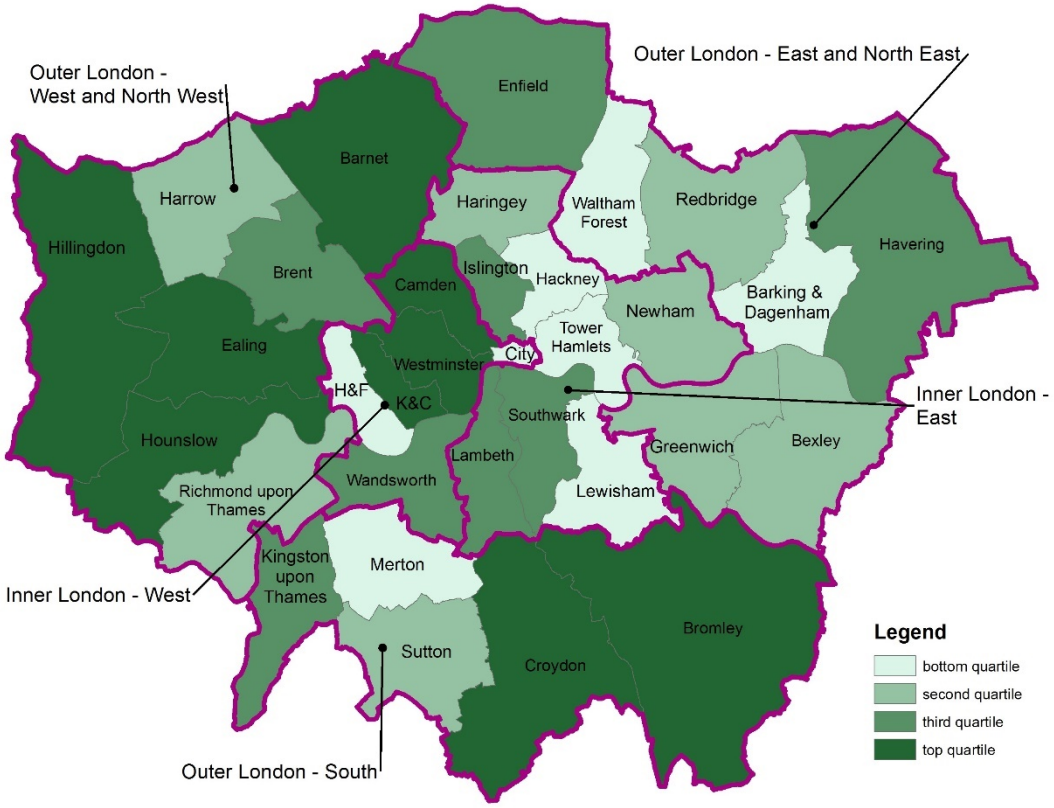
Retail goods employee jobs are distributed around London in 1971



Source: GLA borough by sector jobs series

Map 2.2: Distribution of retail goods employee jobs across London, 1989

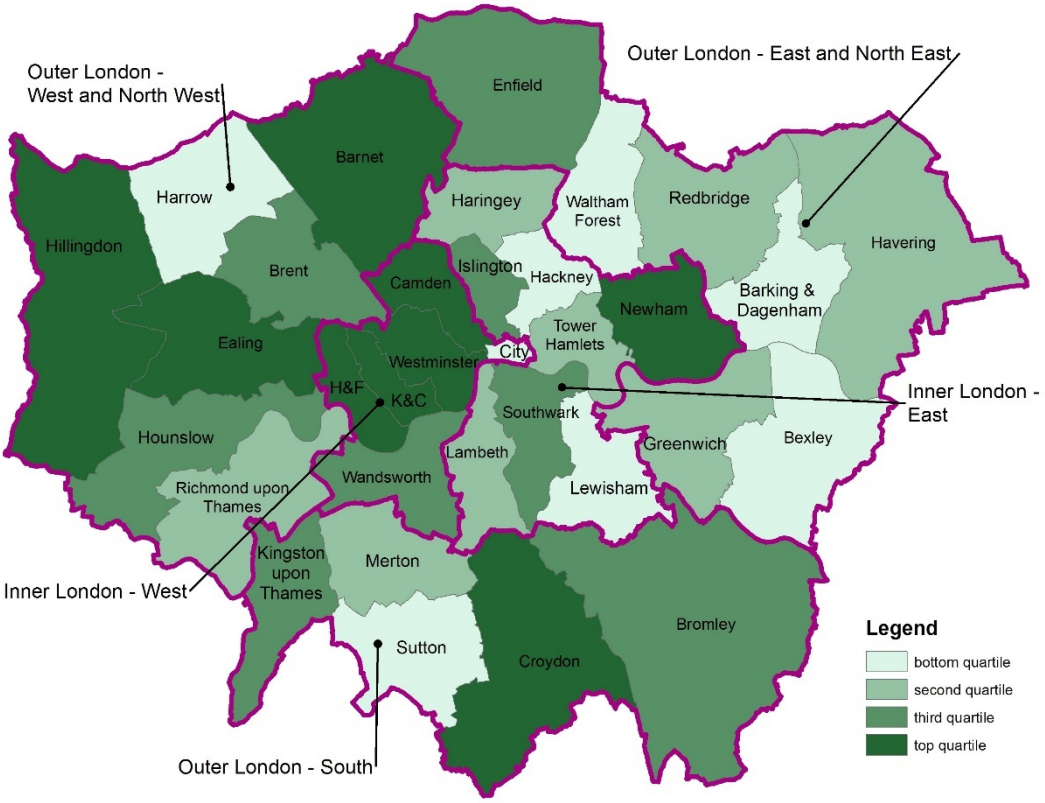
The west of London around the airport has become relatively more important by 1989



Source: GLA borough by sector jobs series

Map 2.3: Distribution of retail goods employee jobs across London, 2015

The east of the city has diminished in relative importance by 2015



Source: GLA borough by sector jobs series

The original paper accompanying these maps[29] concluded that the higher growth in employee jobs occurred in the centre and the west of London. It reflected that the strongest growth in jobs had been in business services, and that these were the areas where this had happened.

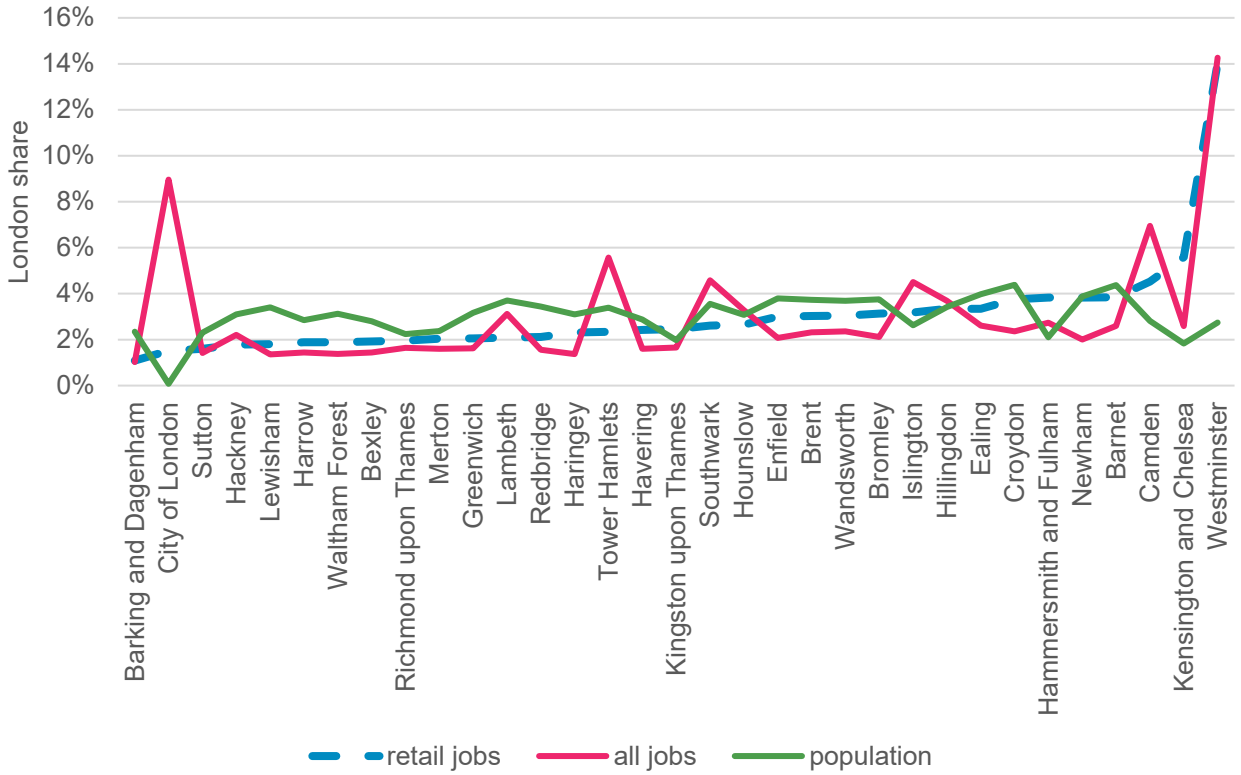
Consistent with this analysis one general finding of this paper is that shops, and the retail sector tend to locate nearer where jobs are than where people live. This does not mean that all shopping is done when people are working, and, for example, Experian assumes that only 10% of shopping in London is done by workers[30]. In the centre of London, though, it is debatable that commuters may be more likely to take advantage of the extensive retail offer. Tourism is also important for shopping in central London, as Chapter 4 discusses. The same chapter shows that people are more likely to use public transport for more major shopping trips, and so may use the same networks that people use to travel to work.

Figure 2.16 provides evidence that the retail goods sector tends to locate nearer to where the jobs are than where people live at a local authority level. Appendix B finds a relationship between overall business activity and retail goods activity for local authorities and high streets, and also finds that this relationship has weakened. It does not find relationships between retail goods activity and population, or for business activity not on high streets.

[29] See London's boroughs - Borough by sector jobs, data and methodology | London City Hall
[30] See Consumer expenditure and comparison goods floorspace need in London 2017

Figure 2.16: Shares of retail goods and all employee jobs, and population by local authority, 2015

Retail jobs tend to be more where there are jobs than where people live



Source: GLA borough by sector jobs series and ONS local authority population estimates

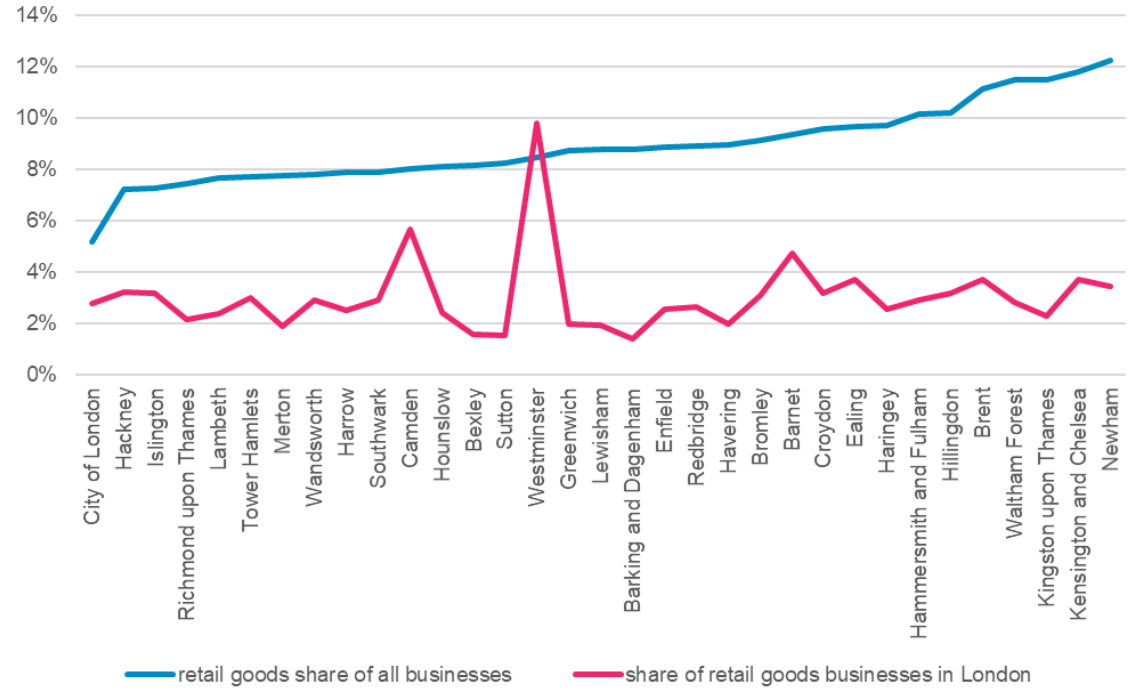
Further evidence that it is the wider performance of an area which is important to the health of the retail sector rather than the reverse is provided by the Centre for Cities[31]. In a national study of cities it concludes that, "The performance of the high street is an outcome of the wider economic performance of city centres." High streets in city centres with strong economies were not struggling in 2019. "The real challenge for retailers is insufficient footfall in their city centres, due to the lack of jobs in these central locations, which would provide customers during the week."

In contrast, retail businesses tend to be relatively more important as a share of total businesses in the outer areas of London. An inference is that the larger retail businesses are in the centre. In comparison the distribution of retail businesses tends to be fairly even across local authorities, with the exception of Westminster. The share of retail businesses by local authorities rises for retail goods businesses from 5% for the City of London to 12% for Newham, (Figure 2.17), and for retail properties from 6% for the City of London to 48% for Newham, (Figure 2.18).

[31] See City centres: past, present and future | Centre for Cities

Figure 2.17: Retail goods businesses share of businesses by local authority, and share of retail goods businesses by local authority, 2019/20

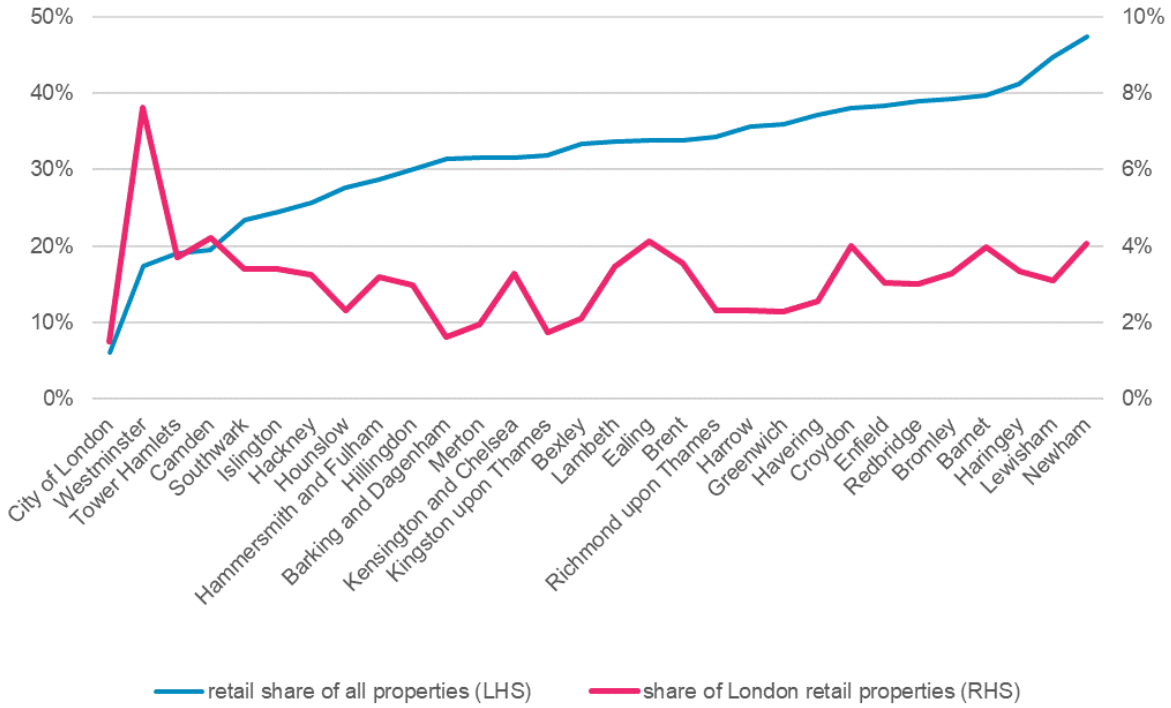
Retail businesses as a share of businesses are more important in the outer areas of London



Source: ONS UK Business Counts

Figure 2.18: Retail properties share of properties by local authority, and share of retail properties by local authority, 2018/19

Retail properties as a share of properties are more important in the outer areas of London



Source: VOA

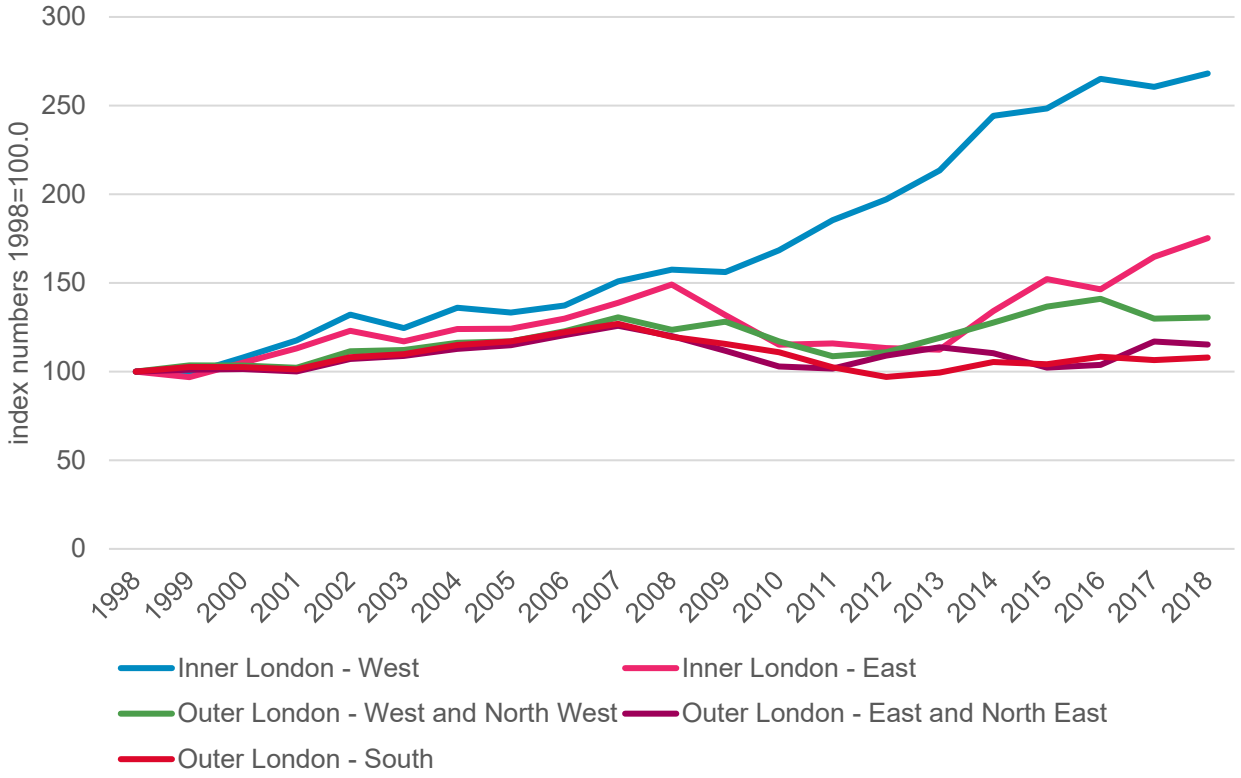
2.4.2 Productivity trends and levels

The ONS provides a NUTS[32] classification of the sub-areas of London, used here for sub-regional analysis. Inner London accounts for over half of retail goods output and employee jobs.

Retail goods output growth has been concentrated in Inner London. Output has increased over two-and-a-half-fold in Inner London – West in the 20 years to 2018. In Inner London – East it has grown by 175%, and in the other three regions it has not grown by more than 30%, (Figure 2.19).

Figure 2.19: Retail goods GVA trends, London NUTS2 sub-regions, 1998-2018

Retail goods output growth has been concentrated in Inner London - West



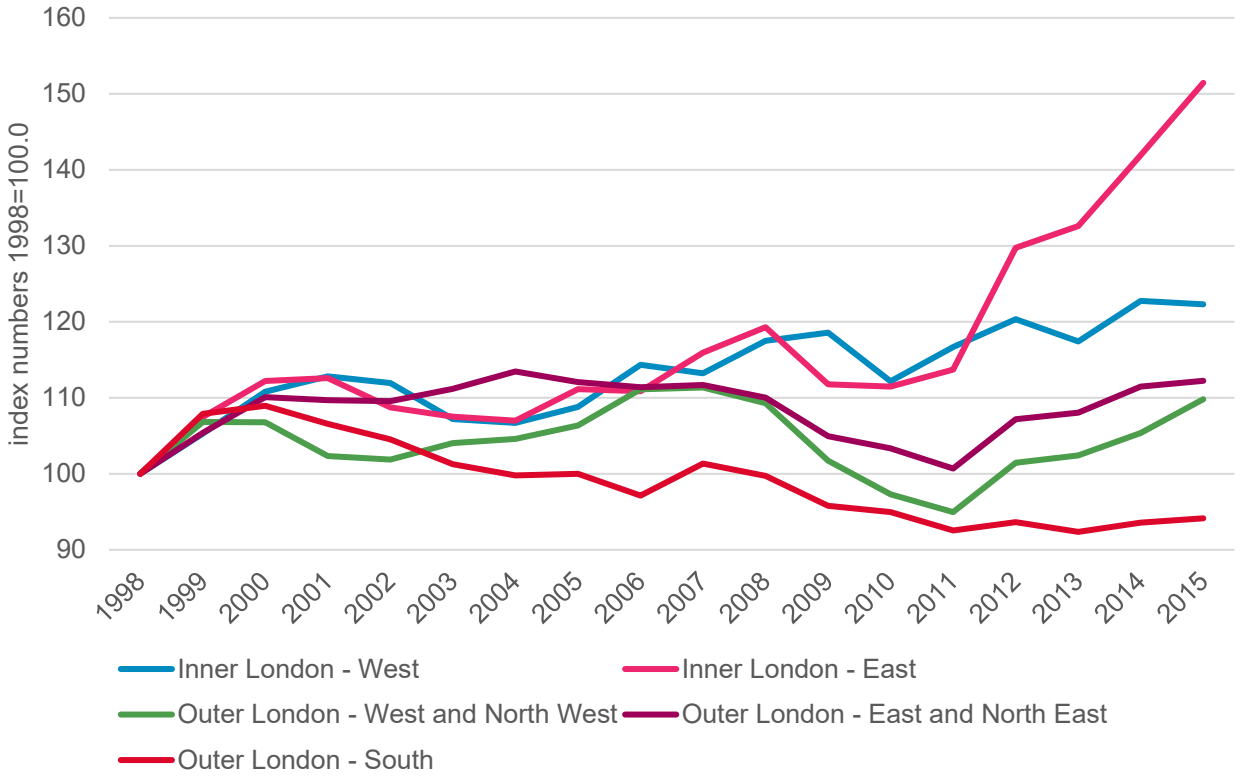
Source: ONS GVA series

Employee jobs growth has also been concentrated in Inner London. It has increased by over half in Inner London – East in the years 1998-2015, and a little over 20% in Inner London – West. Employee jobs have fallen by 5% in Outer London – South in this period, (Figure 2.20).

[32] Nomenclature of Territorial Units for Statistics (NUTS). For more information see Appendix D of the main report at London at night - an evidence base for a 24-hour city | London City Hall

Figure 2.20: Retail goods employee jobs trends, London NUTS2 sub-regions, 1998-2015

Retail goods employee jobs growth has been highest in Inner London - East



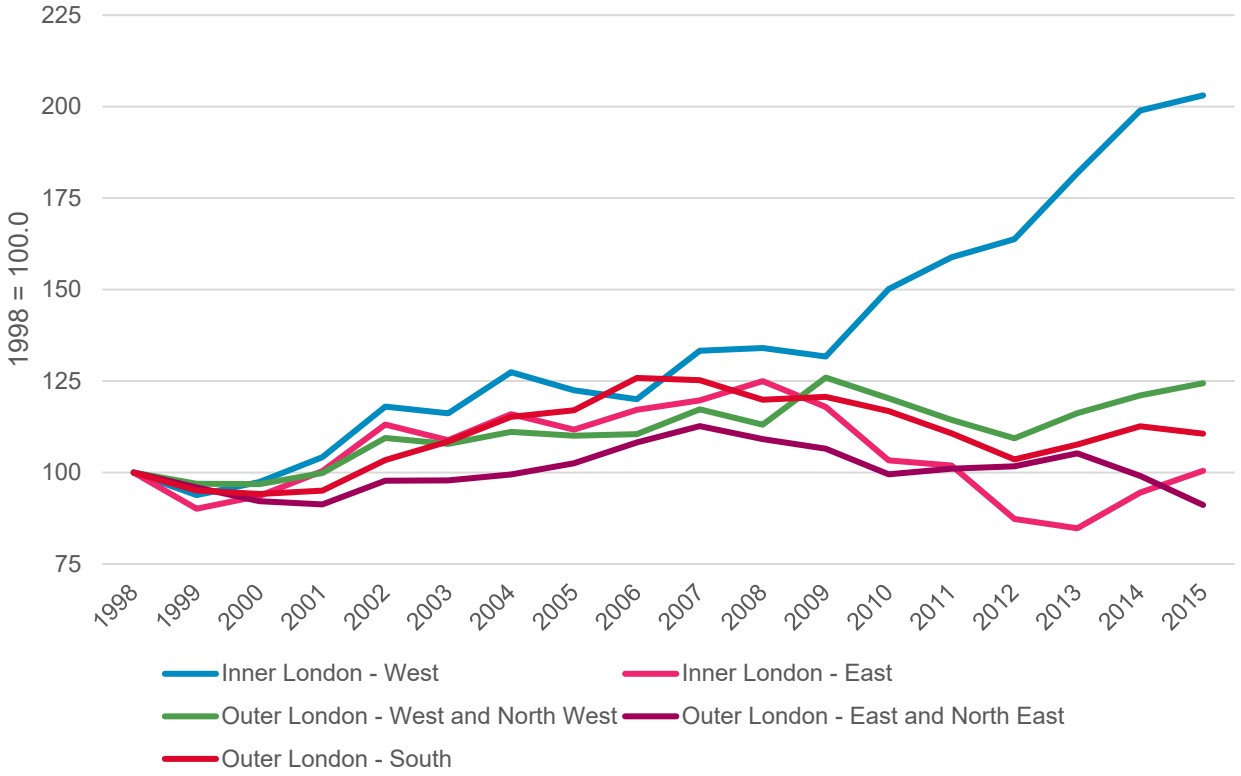
Source: GLA borough by sector jobs series

Higher output and employee jobs growth has translated into higher productivity growth in Inner London – West, but not Inner London - East. This is measuring productivity as GVA/employee job[33]. In the years 1998-2015 productivity has doubled in Inner London – West and remained the same in Inner London – East. The strongest growth for Inner London – West has been since 2009, while by 2015 productivity had not returned to this level for other areas of London, (Figure 2.21).

[33] Self-employed jobs in retail goods have been 8% or less of all jobs this century. Inclusion of this group, if there were data, is unlikely to make a significant difference to the findings of this section

Figure 2.21: Retail goods productivity trends, GVA/employee job, London NUTS2 sub-regions, 1998-2015

Productivity growth has been highest in Inner London - West



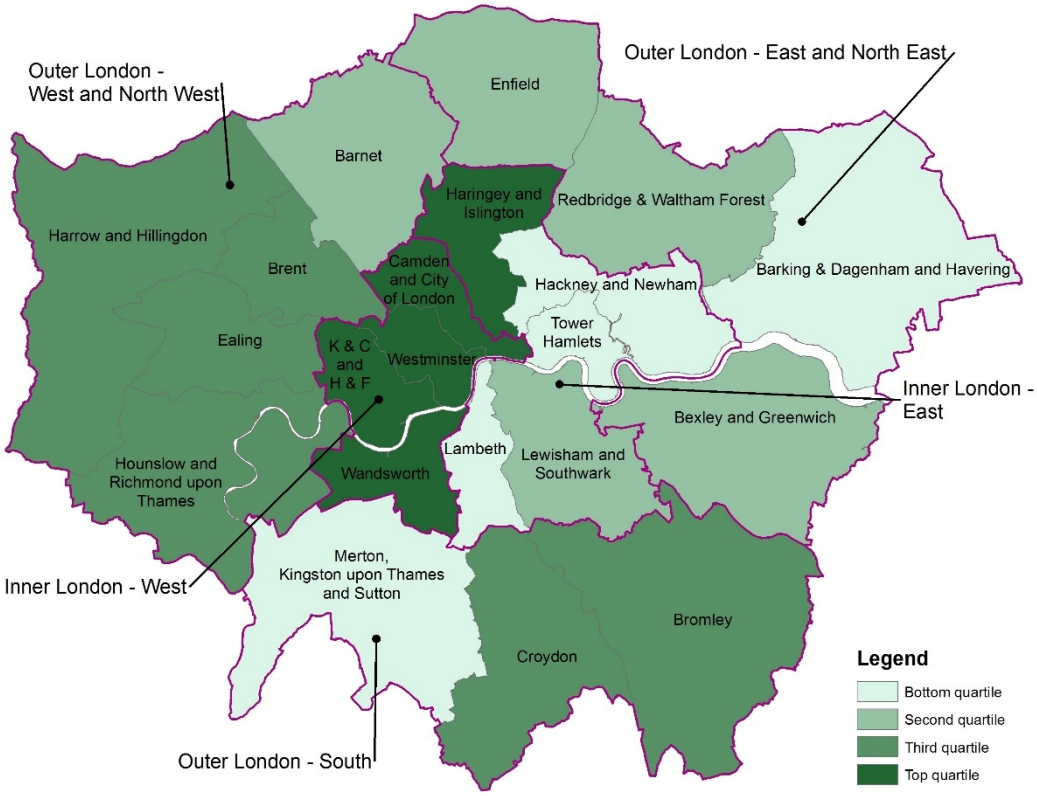
Source: GLA borough by sector jobs series and ONS GVA series

Appendix A compares the use of the GVA/employee job measure of productivity with the GVA/job measure for the retail goods sector. It concludes that productivity growth will be overstated as GVA includes the contribution of the self-employed, whose share of jobs has been declining both in London and the UK in this sector.

Productivity levels are similar across these sub-regions of London, except for Inner London – West which is more than 50% higher. Productivity levels vary markedly across the local authorities of Inner London – East. Haringey & Islington is in the top quartile, while Hackney & Newham, Lambeth, and Tower Hamlets are all in the bottom quartile. Outside Inner London productivity is highest in west London and parts of south east London, (Map 2.4).

Map 2.4: Retail goods productivity, GVA/employee job, London NUTS3 sub-regions, 2015

Productivity level is highest in Inner London - West



Source: GLA borough by sector jobs series and ONS GVA series

The increase in the productivity growth rate has been led by Camden and the City of London, and Westminster, at over 9% a year for both areas for 2009-15, (Table 2.1). The decline in employee jobs for both areas suggests it is not expansion but rather more efficient use of existing space that has made an important contribution to the productivity growth. This is consistent with the analysis of the next chapter that there has been increased pressure on the use of land in central London, and so this has been a spur to improve productivity. As Westminster accounted for a fifth of retail goods output in 2015 the growth has a disproportionate impact on London-wide productivity figures. What happens in Westminster provides an explanation for what is happening London-wide.

Table 2.1: Components of retail goods productivity growth, GVA/employee job measures, London NUTS3 sub-regions of Inner London – West

Productivity growth has been led by Camden and the City of London, and Westminster

	2015	CAGR 2009-15		
	share of London output	output growth	employee jobs growth	productivity growth
Camden and City of London	8.0%	7.4%	-2.5%	10.1%
Westminster	20.4%	8.5%	-0.8%	9.4%
Kensington & Chelsea and Hammersmith & Fulham	12.9%	8.8%	5.2%	3.4%
Wandsworth	3.2%	4.6%	1.2%	3.3%
Haringey and Islington	5.9%	6.4%	5.8%	0.5%

Source: GLA borough by sector jobs series and ONS GVA series

Chapter 3 – Drivers of change: competition for land

3.1 Overview and main findings

London is a growing city. The population has increased from 7.2m to 9.0m[34], and jobs have increased from 4.6m to 6.1m[35] between 2000 and 2019. This has to be accommodated within fixed boundaries. As a result, there is a significant pressure on space. This chapter considers how this may have influenced the development of the retail sector. These pressures may lead to higher prices, such as rents and business rates, while Chapter 5 looks more explicitly at some of the cost drivers, including business rates revaluation, and their effects.

The number of retail and leisure shops has been increasing in London:

- Retail shops have been growing more quickly outside the main shopping areas of town centres and high streets;
- Retail shops have been growing more slowly than leisure shops in town centres and high streets;
- This is in contrast with leisure shops which are expanding everywhere faster than retail shops;
- The number of shops has been falling in some of each of the main shopping and other areas;
- Retail shops across the categories of comparison, convenience, and service have been declining in the CAZ as the demand for office space has gone up;
- The CAZ still accounted for 16% of shops in London in 2019;
- The number of shops in Regeneration Areas has also been falling and is less than 2% of shops in London.

Retail space in London often occupies prime land:

- It has had a higher increase in revalued rates than all other sectors of the London economy;
- At revaluation retail rates fell for most other regions in England and Wales;
- Correlation in rates revaluation indicates that across the country there is substitutability in the use of business and retail space;
- Retail properties occupy land where other properties are concentrated because it is located where there are concentrations of jobs;
- Employment growth has been higher on OS high streets than elsewhere in London.

Much of the expansion of shops is into more marginal locations:

- Within London there is no correlation in changes in the use of retail and office space – the historic relationship that retail workplaces are located where there are jobs seems to be weakening;
- Off-street shopping developments have been occurring across London in its main shopping areas and elsewhere;
- They account for 30% of the growth in shops since 2013, their rate of growth has been accelerating, and is most rapid outside town centres and high streets.

Retailing in the main shopping and other areas is evolving, and has been reasonably resilient to these changes:

- Shop vacancy rates for London, and across all these types of area remain below the rate for Britain;

[34] Source: ONS mid-year population estimates, available on NOMIS
[35] Source: ONS Workforce jobs series, available on NOMIS

- High streets drive employment and population growth in the capital:
- This may also be true for town centres although there is no data to support this conclusion.
- Off-street shopping developments have provided a means to expand and diversify the retail offer, and the larger developments are disproportionately in the main shopping areas and OAs;
- The relative loss of retail employment on high streets across London is being offset by growth in the leisure sector in the form of Accommodation and food services;
- Improvements in the street environment can reduce the vacancy rate for retail outlets.

Most of the main shopping and other areas are managing the growth in shopping units, that is occupied and non-occupied shops. There are three areas of concern:

- Potential oversupply of shops in some areas:
  - 33% of local authorities and 23% of OAs have vacancy rates persistently above the London average;
  - In over 70% of local authorities and 60% of OAs both the number of shops, and number of vacancies has been rising;
  - The number of off-street shopping developments is accelerating.

- A declining role for shops in some of the main shopping areas:
  - In 40% or more of town centres and high streets shop numbers are falling.

- The loss of comparison shops (because of e-commerce) is associated with the loss of other shops, although the reverse is also true:
  - This has been happening for local authorities and high streets, although not town centres which may have had a greater capability to diversify.

The other three sections of this chapter are:

- Changes in land use for different purposes;
- The shift in retail to less economically valuable areas;
- The retail response of the main shopping and other areas.

There are five appendices supporting this chapter:

- Appendix B – Analysis of factors influencing the distribution of shops across London
- Appendix C – Retail characteristics of the main shopping and other areas
- Appendix D – The evolution of shopping developments and chains
- Appendix E – How the high street is evolving
- Appendix F – The resilience of retailing in the main shopping and other areas

3.2 Changes in land use for different purposes

The revaluation of business rates in 2017 provides an opportunity to compare the relative importance of property types. The revaluation compares property values at 1 April 2008 and 1 April 2015 and is considered in more detail in Chapter 5. Retail rates in London have the largest increase in business rates across all property types for all the countries and regions of England and Wales. London is the only area where the increase in retail rates is higher than all business rates, (Table 3.1). Only the East Midlands and the South East also have positive revaluations of retail rates. This indicates both the health of the retail sector in London, and its health compared with other parts of the country.

Table 3.1: Business rates percentage revaluation by office type for retail and other property types, countries and regions of England and Wales, 2017

Only in London are retail rates rising faster than all business rates, and retail rates are rising faster in London than any other part of the country

Country or region	Property type				
	Retail	Industrial	Office	Other	Total
London	26.8%	15.5%	22.6%	26.1%	23.7%
East Midlands	5.6%	3.3%	8.2%	13.4%	7.4%
England	*4.8%*	*4.0%*	*12.7%*	*15.9%*	*9.6%*
South East	1.2%	6.7%	12.9%	17.8%	9.6%
West Midlands	-0.9%	3.4%	-6.8%	12.3%	3.2%
Yorkshire And The Humber	-1.9%	0.7%	-12.4%	7.1%	0.0%
East	-3.6%	2.3%	2.4%	12.3%	3.7%
North West	-5.4%	-3.5%	-4.4%	10.7%	0.0%
South West	-5.7%	5.4%	-0.4%	13.9%	4.0%
North East	-6.5%	-0.4%	-12.3%	9.5%	-0.9%
Wales	*-8.5%*	*-4.0%*	*-6.6%*	*4.5%*	*-2.9%*

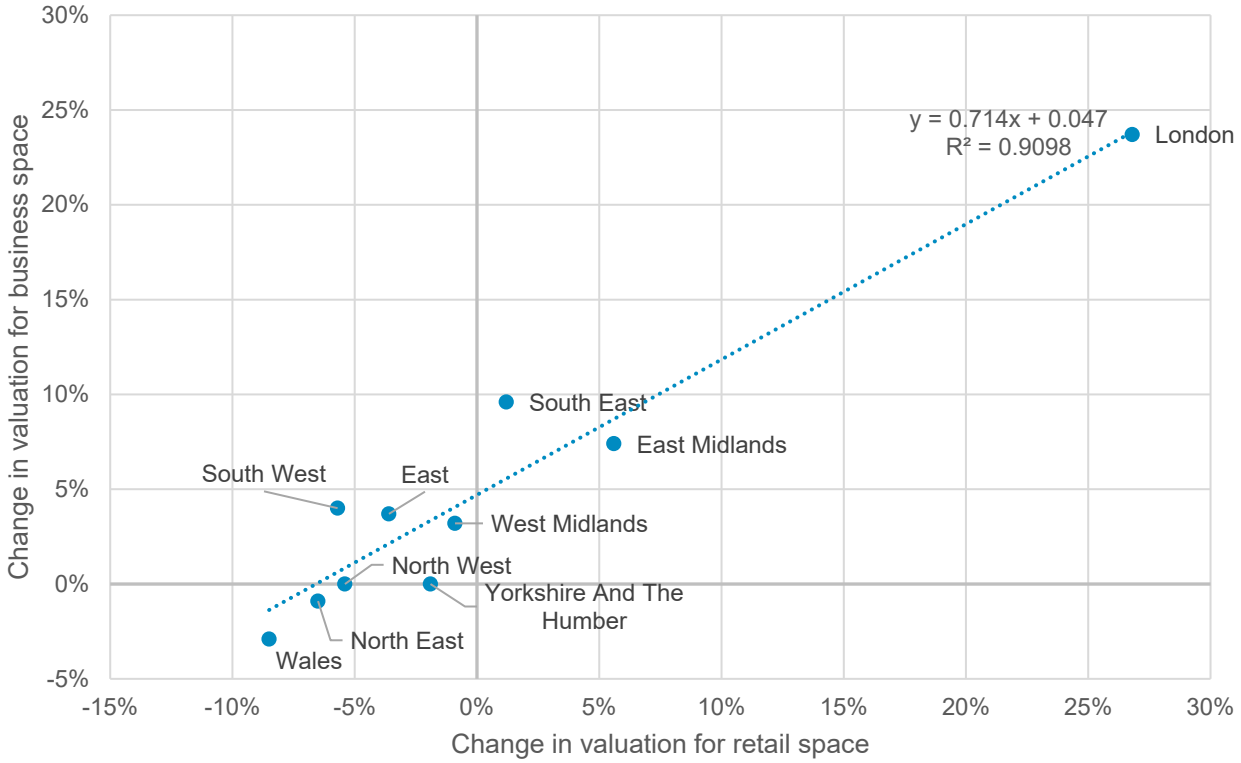
Source: VOA

There is a clear relationship between the revaluation of retail rates and business rates across the countries and regions of England and Wales, (Figure 3.1)[36]. This suggests there is substitutability in the use of retail and other business space. The decline in business space mentioned in Chapter 2 is likely to have been offset by an increase in residential land.

[36] There is an R^2 of 0.91 and a correlation coefficient of 0.95. Values of 1 would indicate that the model exactly explained the underlying data, while values of 0 would indicate no explanatory power. R^2 is a measure of the goodness-of-fit of data to a trend line, and the correlation between different sets of values

Figure 3.1: 2017 business rate revaluation for all spaces and retail spaces, regions of England and Wales

There is substitutability nationally in the use of retail and other business spaces



Source: VOA and GLA Economics analysis

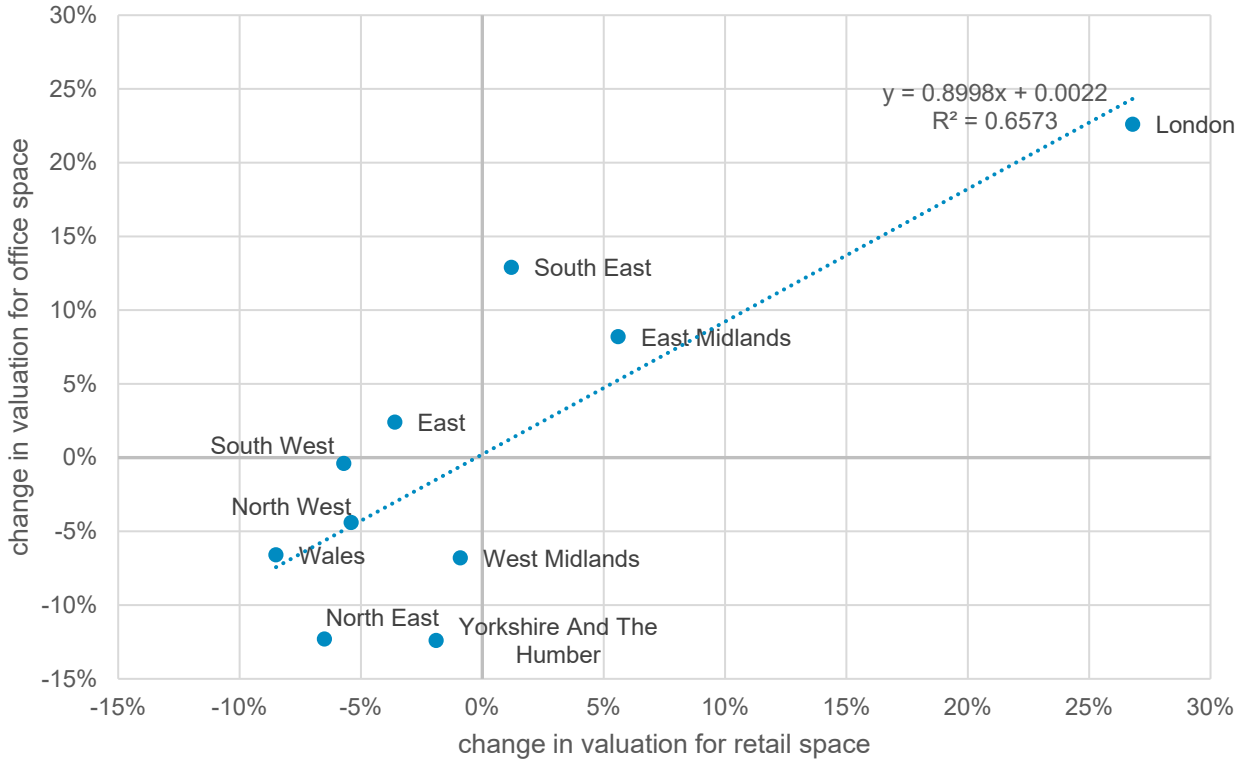
There is a less clear relationship between the revaluation of retail rates and office rates across the countries and regions of England and Wales, (Figure 3.2)[37]. The exception is London where the revaluations of retail, office, and all business space are all similar in magnitude. This suggests there is more substitutability in the use of retail and office space in London and is consistent with the earlier finding that retail businesses tend to locate in areas where there are other businesses. A factor may also be that London is entirely urban unlike the other regions of England and Wales[38].

[37] There is an R^2 of 0.66, and a correlation coefficient of 0.81

[38] For a discussion, see Appendix A of Transport expenditure in London 2020 | London City Hall

Figure 3.2: 2017 business rate revaluation for office spaces and retail spaces, regions of England and Wales

There is less substitutability in the use of retail and office spaces outside London



Source: VOA and GLA Economics analysis

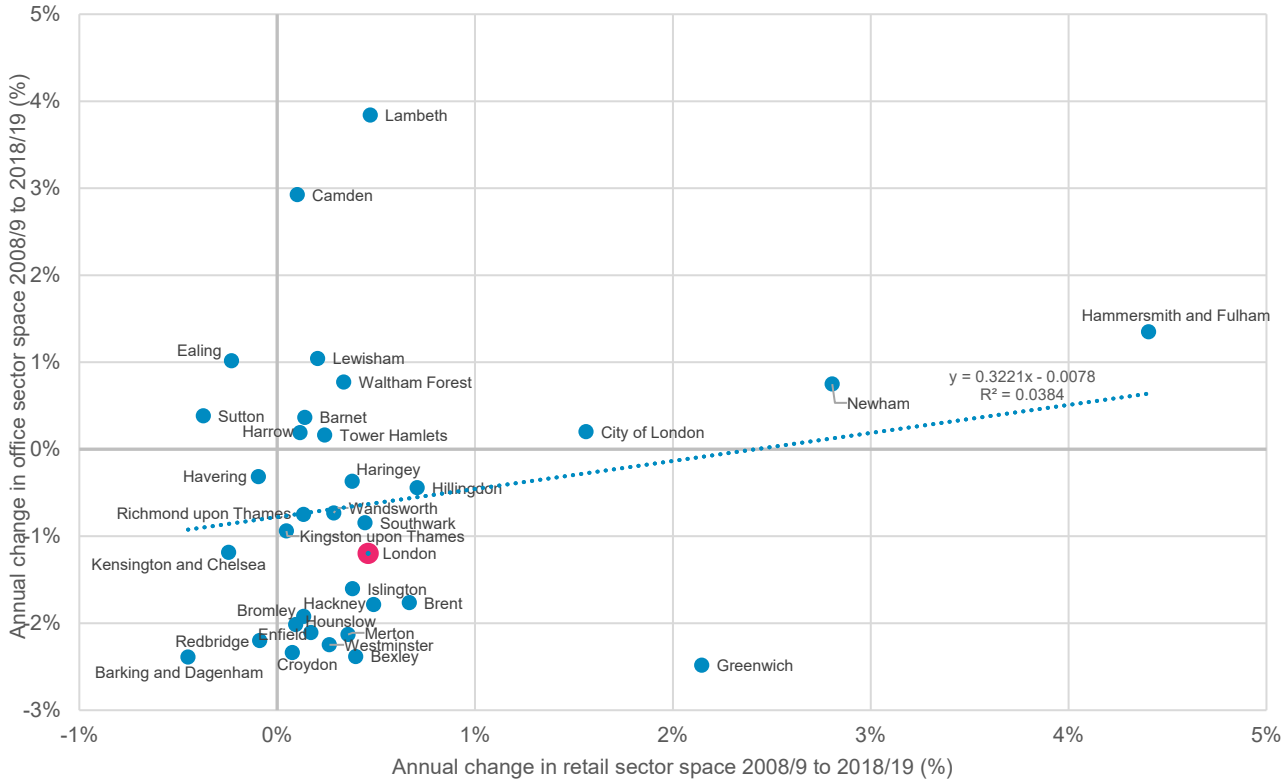
This does not mean that office, retail space, and other commercial space, are evolving in the same way. While office space is expanding it is also becoming more concentrated in the central areas of London. Office space has declined in 21 boroughs over the 11 years to 2019/20. This is consistent with the story of many GLA Economics papers that the agglomeration of specialised services activity drives the London economy[39]. On the other hand, there has been growth in retail space in all but six boroughs, namely Barking and Dagenham, Ealing, Havering, Kensington and Chelsea, Redbridge, and Sutton. The strongest growth has been in Hammersmith and Fulham and Newham where the Westfield developments are. So, there is no relationship between the development of retail and office space, (Figure 3.3)[40].

[39] See, for example, Transport expenditure in London 2020 | London City Hall

[40] There is an R^2 of 0.13, and a correlation coefficient of 0.36

Figure 3.3: Annual change of office and retail space 2008/9 to 2019/20 by London local authority

The evolution of retail space does not have as simple a dynamic as office space



Source: VOA and GLA Economics analysis

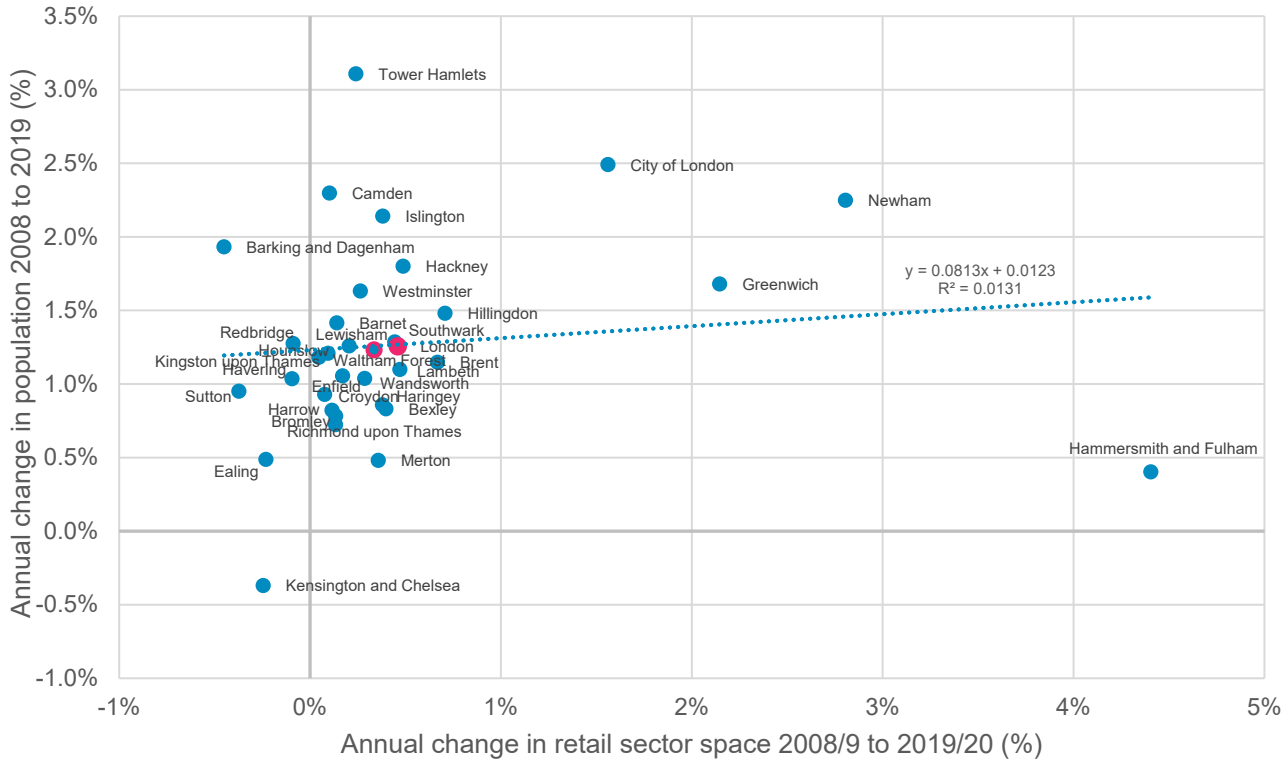
The corresponding results for all business space and retail space are similar and are not provided here for reasons of space.

There is a similar conclusion for the development of retail space and population growth. As with retail space population growth has been broadly based across the city with growth in all local authorities except Kensington and Chelsea. It is just that the growth in population and retail space across areas has been at different rates, (Figure 3.4)[41].

[41] There is an R^2 of 0.01, and a correlation coefficient of 0.07

Figure 3.4: Annual change of retail space 2008/9 to 2019/20 and population 2008 to 2019 by London local authority

The evolution of retail space does not mirror population growth across London



Source: VOA and ONS mid-year population estimates, and GLA Economics analysis

Other than employment the analysis of this paper has not been able to identify any factors which drives the evolution of the retail sector other than that retail locations tend to be near where people work. Appendix B finds a corresponding association for employment on high streets but does not find an association for employment elsewhere in London.

These relationships appear to be weakening. There is not a relationship between change in employment and change in shops across local authorities and high streets, which again is a consistent finding of this paper.

Appendix B also finds no relationship between the Index of Multiple Deprivation (IMD) of an area, and its population or population density, and its shops or change in shops. That is, shops are not less likely to be located in more deprived areas, or more likely to be where there are concentrations of people.

3.3 The shift in retail to less economically valuable areas

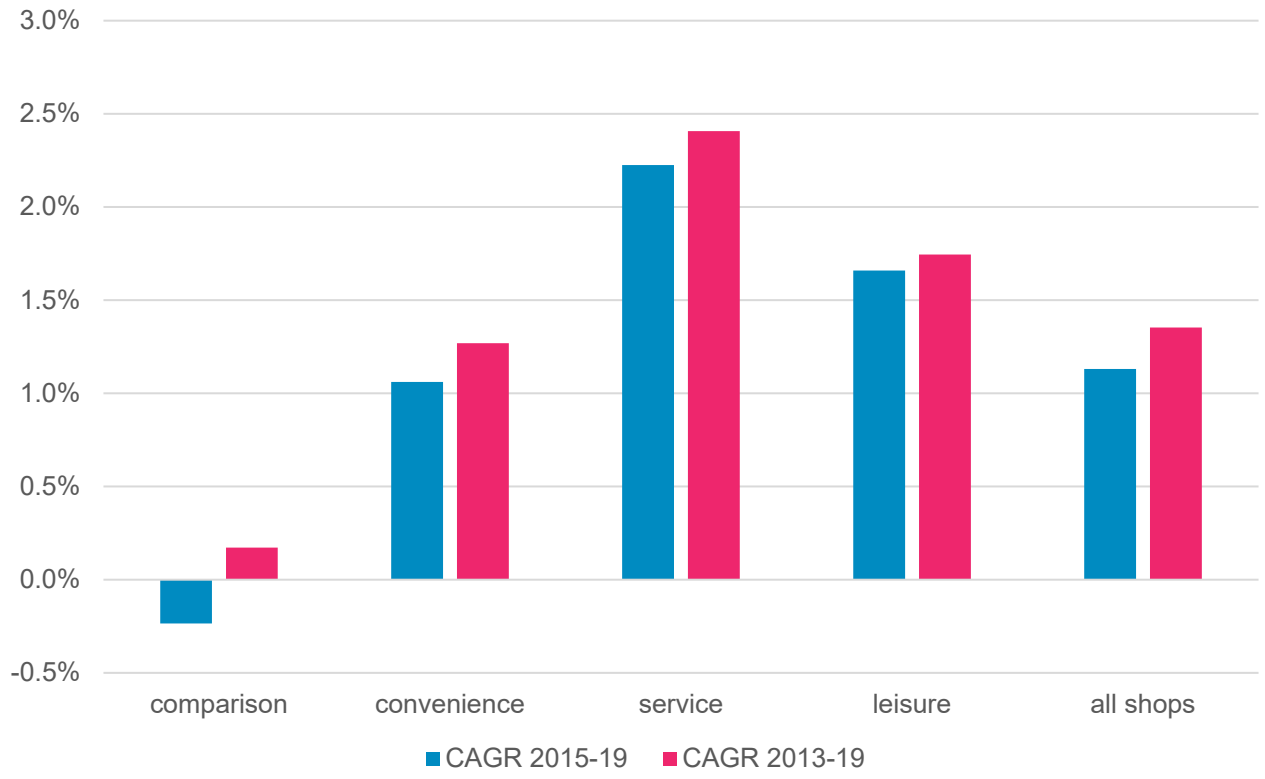
Retail shops have become more spread out across London and have grown across London. Although retail goods output and productivity have grown strongly in Inner London – West the number of retail shops has been falling in the CAZ, which mostly lies within this area. Some of the retail goods growth may be in internet-only businesses. Leisure shops have grown more strongly across the main shopping and other areas, such as town centres and high streets, of London, which suggests that retail has become more marginal in these more expensive areas and has sought other areas for development. The one category of

shops under pressure is comparison shops, and this is a London-wide phenomenon, which is most readily attributed to the growth of e-commerce, discussed in Chapter 4.

The number of shops in London has grown between 2013 and 2019 across all categories, although since 2015 there has been a decline in comparison shops, (Figure 3.5). For the CAZ, since 2013 there has been a decline in comparison shops, and since 2015 this has extended to the other retail categories[42]. As this is broader than comparison shops it suggests the phenomenon is broader than the threat to comparison shops from the internet. Leisure shops have increased over both time periods, (Figure 3.6). For both London and the CAZ leisure shops have expanded more than retail shops both from 2013 and 2015.

Figure 3.5: Growth in shops by category of shop, 2013-19, London

All categories of shops have grown across London, although leisure shops have grown more strongly than retail shops

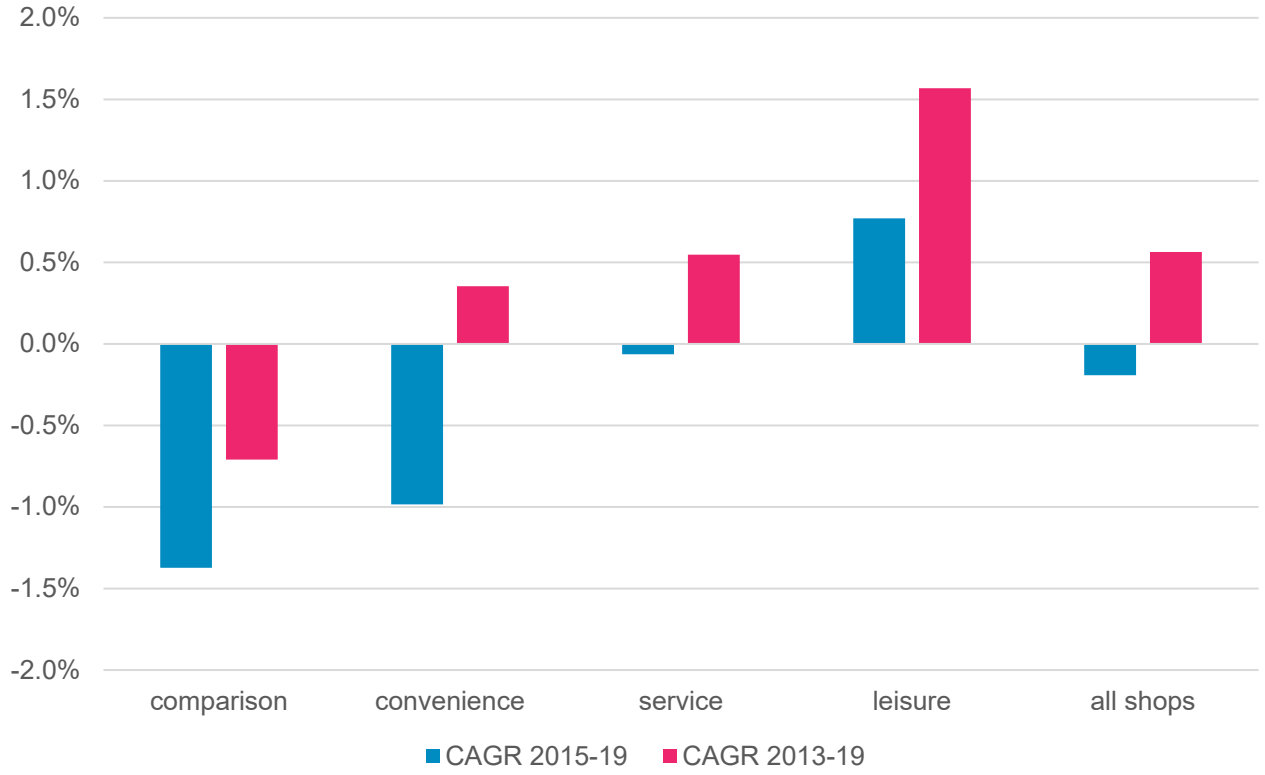


Source: GLA Economics analysis of LDC data
Note: CAGR is compound annual growth rate

[42] This phenomenon seems more pronounced for the International town centres than other parts of the CAZ, see Appendix C

Figure 3.6: Growth in shops by category of shop, 2013-19, CAZ

In the CAZ since 2015 leisure shops have grown while retail shops have fallen

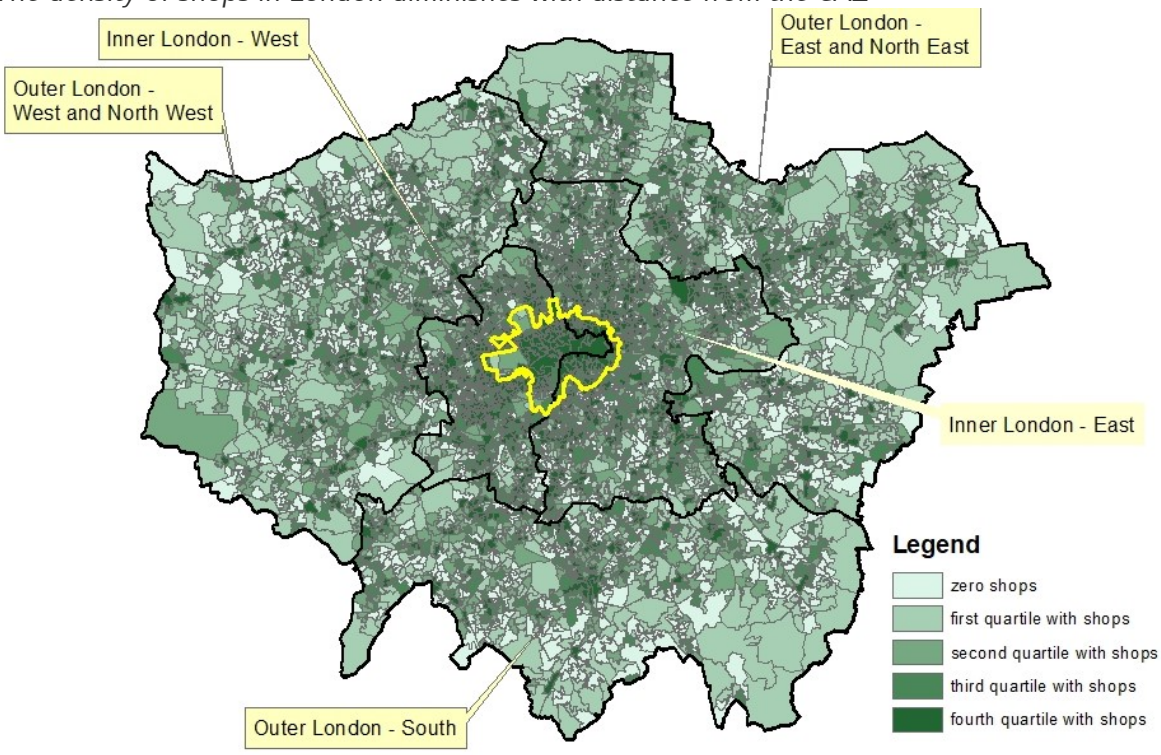


Source: GLA Economics analysis of LDC data
Note: CAGR is compound annual growth rate

The CAZ is the area of London where there is the greatest concentration of both shops and jobs. Jobs have continued to grow in the period since 2013, and the decline in retail shops since 2015 suggests that the relationship is weakening. The closing of the more marginal shops would contribute to rising retail goods productivity in the CAZ. The density of shops diminishes with distance from the CAZ (yellow boundary), (Map 3.1).

Map 3.1: Shop density, shops per '000 km², by LSOA, London 2019

The density of shops in London diminishes with distance from the CAZ



Source: GLA Economics analysis of LDC data

This paper defines the main shopping areas as the CAZ, town centres, high streets, and other areas as OAs, and BIDs. Box 3.1 explains a little more what they are, and how they have been defined. Notably, town centres and high streets have been defined by their retail offer, and this has excluded retail parks, and isolated shopping centres. In 2019, 16% of shops were in the CAZ, even though this area only represents 2% of the area of London, and 75% of shops outside the CAZ were on high streets.

Box 3.1: Definitions of London's main shopping and other areas

This paper looks at the provision of shops for the CAZ (Central Activity Zone), town centres[43], high streets, OAs (Opportunity Areas) and BIDs (Business Improvement Districts). There are two definitions of high streets employed in this paper, namely the one GLA has used in previous publications[44], and a definition developed by the OS and used by the ONS[45]. Appendix C considers the characteristics of town centres, high streets and the other areas, and includes maps for the geographies of these areas.

Town centres and high streets have typically been defined by their retail offer. For example, the National Planning Policy Framework defines town centres as, "including the primary shopping area and areas predominantly occupied by main town centre uses within or adjacent to the primary shopping area."[46] In the London Plan, town centre areas are defined as places that provide access to a range of commercial,

[43] The coverage of town centres evolves over time with changes in the London Plan town centre network. The definition used in this paper is the same as in the 2017 London Town Centre Health Check
[44] See, for example, GLA High Streets for All
[45] See High streets in Great Britain - Office for National Statistics
[46] See Appendix 2: Glossary - National Planning Policy Framework - Guidance - GOV.UK

cultural and civic activities, including shopping, leisure, employment, entertainment, culture, and social and community facilities. Town centre boundaries are defined by local authorities in their Local Plans.

The OS constructed high streets using clustering of retail addresses[47] across all parts of London. The GLA original definition was more restrictive as 250m is the minimum length for a high street (with a 50m buffer around each end)[48]. Another important difference with the OS definition is that it is areas outside the CAZ. Definitions of town centres and high streets exclude edge-of-centre or out-of-centre retail parks, and standalone shopping centres. The GLA definitions of town centres and high streets recognise the mixed uses to which these areas are put.

For the CAZ retailing is identified as one of a range of its strategic functions[49].

OAs are London's major source of brownfield land which have significant capacity for development – such as housing or commercial use – and have existing or potentially improved public transport access[50]. Most OAs contain a range of existing town centres and high streets (alongside edge-of-centre or out-of-centre retail parks) and some OAs lie within the CAZ.

BIDs are business-led organisations funded by a mandatory levy on all eligible businesses after a successful ballot. Funds are ring-fenced for use only in the BID area, based on decisions by the businesses themselves. This might include actions to increase footfall and staff retention, or place promotion amongst other things[51]. Of the 46 BIDs in October 2015, 36 were high street or town centre BIDs, seven were industrial BIDs, and three were property-owner BIDs – the last were all in the CAZ. This compares with fewer than 5 BIDs in total in 2005. Over time some BIDs wind up while others are created[52]. The analysis of this report is for the 62 BIDs in existence in London in June 2020.

There is a fair degree of overlap between these areas, and some of these areas do not have any shops. For example:

- 176 out of 586 high streets have some areas within a town centre, and 197 out of 230 town centres have some area within a high street;
- 81 town centres have some area within one of the 47 OAs, while only 41 OAs have some area within a town centre, (Table 3.2);
- 35 town centres have some area within the CAZ, as do 11 OAs, and 21 out of 60 BIDs (with shops);
- 185 of 1186 OS high streets (with shops) have some area within the CAZ, while 905 have some area within GLA high streets;
- In contrast, 472 out of 586 high streets (with shops) have some shared area with an OS high street.

[47] See High streets in Great Britain - Office for National Statistics
[48] Source: Gort Scott and UCL (2010), High Street London
[49] See Intend to Publish London Plan 2019 | London City Hall
[50] See What are Opportunity Areas? | London City Hall
[51] See About Business Improvement Districts | London City Hall
[52] See The Evolution of London's Business Improvement Districts

Table 3.2: Overlaps in geographies of London's main shopping and other areas

	CAZ	Town Centres	High Streets	OS High Streets	Opportunity Areas	Business Improvement Districts	with shops	all
Town Centres	35	230	197	221	81	49	**230**	**230**
High Streets	0	176	586	472	132	38	**586**	**590**
OS High Streets	185	559	905	1186	297	214	**1186**	**1204**
Opportunity Areas	11	41	38	42	47	20	**47**	**47**
Business Improvement Districts	21	50	37	54	27	60	**60**	**62**

Source: GLA Economics analysis of LDC data

The CAZ accounts for 16% of shops in London. It represents, though, only 2% of the area of London. 75% of shops outside the CAZ are on high streets, and while the proportion of London shops in town centres is 43% it is a similar share of shops either within or outside the CAZ, (Table 3.3).

Table 3.3: Distribution of shops in 2019 across London's main shopping and other areas

	Share of shops		
	London	CAZ	outside CAZ
CAZ	16%	100%	0%
Town Centres	43%	47%	42%
High Streets	63%	0%	75%
OS High Streets	69%	82%	67%
Opportunity Areas	25%	44%	21%
Business Improvement Districts	16%	40%	11%

Source: GLA Economics analysis of LDC data

A geographical definition has not been available for edge-of-centre or out-of-centre retail and leisure parks. There is, instead, some analysis of off-street developments.

The growth in shops in London has been strongest outside the main shopping and other areas. Across categories of shops the growth rate for London has been higher than for each of the main shopping and other areas. The exception is OAs, although as OAs account for only a quarter of shops in London this is not sufficient to explain the changes at a London level, (Table 3.4).

Table 3.4: Annual growth rate of shops 2015-19 by category of shop and main shopping and other areas

The growth in shops in London has been strongest outside the main shopping and other areas

	comparison	convenience	service	retail	leisure	all shops
London	*-0.2%*	*1.1%*	*2.2%*	*0.9%*	*1.7%*	*1.1%*
CAZ	-1.4%	-1.0%	-0.1%	-0.9%	0.8%	-0.2%
Town Centres	-1.2%	0.3%	1.0%	-0.2%	0.9%	0.1%
High Streets	-1.0%	0.4%	1.5%	0.3%	1.2%	0.5%
OS High Streets	-1.1%	0.3%	1.5%	0.1%	1.0%	0.4%
Opportunity Areas	0.0%	1.5%	2.5%	1.1%	2.5%	1.5%
Business Improvement Districts	-1.5%	0.3%	0.9%	-0.5%	0.7%	-0.1%

Source: GLA Economics analysis of LDC data

Also apparent from this table are some broader trends picked up elsewhere in the paper. For London and its main shopping and other areas there is a decline in comparison goods shops supporting the view that this is down to the broadly based phenomenon of e-commerce development. Secondly, for each of the main shopping and other areas the growth in leisure shops exceeds that of retail shops.

Despite its decline, comparison shops remain the most common category of shop in London with 30.4% of 102,000 shops. Marginally behind are leisure shops at 30.1%, followed by service shops with 26.4%, and convenience shops make up the remainder at 13.2%. The composition of main shopping and other areas is broadly representative of each category of shop. So, for example, 46.8% of comparison shops are in town centres while they are 42.7% of all shops in London. The exception is the CAZ, which has 22.9% of all leisure shops compared with 15.6% of all such shops in London. This is offset by lower shares of convenience and service shops, (Table 3.5).

Table 3.5: Share of London shops by main shopping and other areas, and category of shops, 2019

Despite the decline in comparison shops it remains the most common category of shop in London, if only slightly ahead of leisure shops in 2019

	comparison	convenience	service	retail	leisure	all shops
CAZ	15.8%	9.2%	10.2%	12.5%	22.9%	15.6%
Town Centres	46.8%	38.8%	42.1%	43.5%	40.7%	42.7%
High Streets	61.8%	66.5%	69.7%	65.6%	58.5%	63.5%
OS High Streets	70.0%	67.3%	71.0%	69.9%	67.2%	69.1%
BIDs	17.4%	11.5%	13.4%	14.8%	18.1%	15.8%
OAs	27.0%	24.8%	21.1%	24.4%	25.7%	24.8%
London total	31012	13447	26981	71440	30712	102152
Share of London total	30.4%	13.2%	26.4%	69.9%	30.1%	100.0%

Source: GLA Economics analysis of LDC data

The corresponding table for floorspace, if the data were available would be unlikely to show similar results. For example, comparison shops account for 95% of retail floorspace and 55% of retail shops in International Centres. For, International Centres, Metropolitan and Major town centres the proportion of retail floorspace for comparison shops was higher than the proportion of comparison shops – this perhaps indicates that the larger comparison stores are in these areas. Appendix C provides more details.

More broadly, Appendix C offers more background on the development of London's shops by category of shop and main shopping area. Over time the proportion of retail properties in the main shopping areas has been in decline. Changes in the number of comparison shops in a local authority or on a high street are likely to impact on the total number of shops. Areas with more comparison shops have expanded, and others with fewer have contracted. Town centres seem to have had more capability to diversify from a loss of comparison shops than have high streets. For example, a growth in leisure shops may have fully compensated the loss of comparison shops for town centres but not high streets. (Chapter 4 discusses the impact of developments in the internet on the numbers of comparison shops.) In contrast, in terms of floorspace, retail properties have become more important on high streets.

The evidence of Appendix C suggests that the trend of polarisation of retailing in town centres where the larger areas grow fastest[53] could be abating. It is plausible to conclude that some larger developments to make more comparison floorspace available may have been placed at risk from the expansion of e-commerce. The provision of a significant uplift in the quality of shopping and an improved leisure experience may be a way to minimise this risk.

The analysis cannot explain why retailing in some of the main shopping areas is successful and in others it is not. One factor not considered is the quality of publicly owned and managed areas. An evaluation by University College London[54] has found that improvements to the quality of some of these areas in London has brought about:

- A one third uplift in the physical quality of the street as a whole from interventions in the publicly owned street space;
- An uplift in office rental values equivalent to an 'additional' 4% per annum;
- A larger uplift in retail rental values equivalent to an 'additional' 7.5% per annum;
- A strongly related decline in retail vacancy leading to a 17% per annum difference in vacancy rates between improved and unimproved street environments;
- A growth in leisure uses, and a greater resilience in the improved streets of traditional and comparison retail.

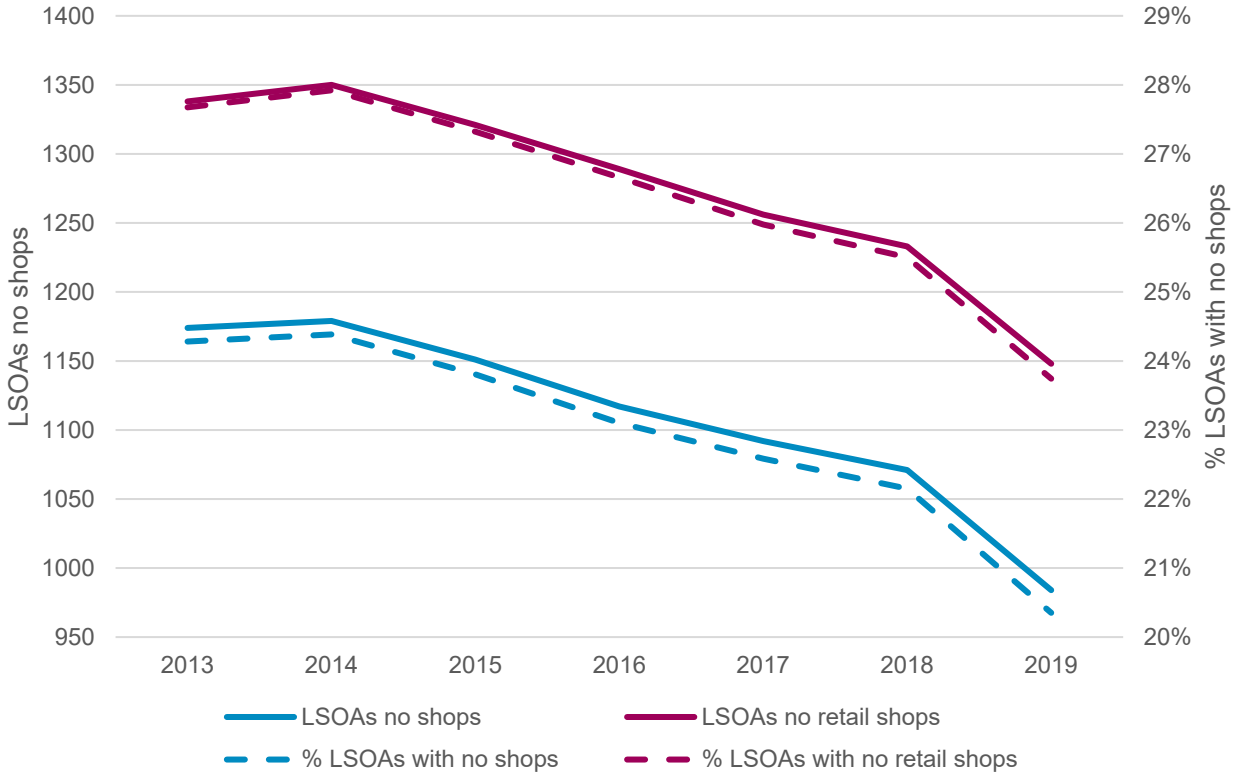
Shops and retail shops have been expanding across London. Out of 4835 LSOAs, 1174 (24%) had no shop in 2013, and 984 (20%) had no shop in 2019. The corresponding figures for retail shops are 1338 (28%) in 2013 and 1148 (24%) in 2019, (Figure 3.7). The opening and closing of shops is in greater flux than this. The number of LSOAs with no shops in both 2015 and 2019 was 54. A partial explanation is that the definition of shops employed by the LDC is a broad one and includes for example service retail such as employment agencies and dentists. In contrast with the earlier map that the density of shops has been greatest in the CAZ, the growth in shops has been concentrated in areas away from the CAZ, (Map 3.2).

[53] See 2017 London Town Centre Health Check Analysis Report, Consumer expenditure and comparison goods floorspace need in London 2017, and Consumer expenditure and comparison goods floorspace need in London 2013

[54] See the Street Appeal Report at Economic benefits of walking and cycling - Transport for London

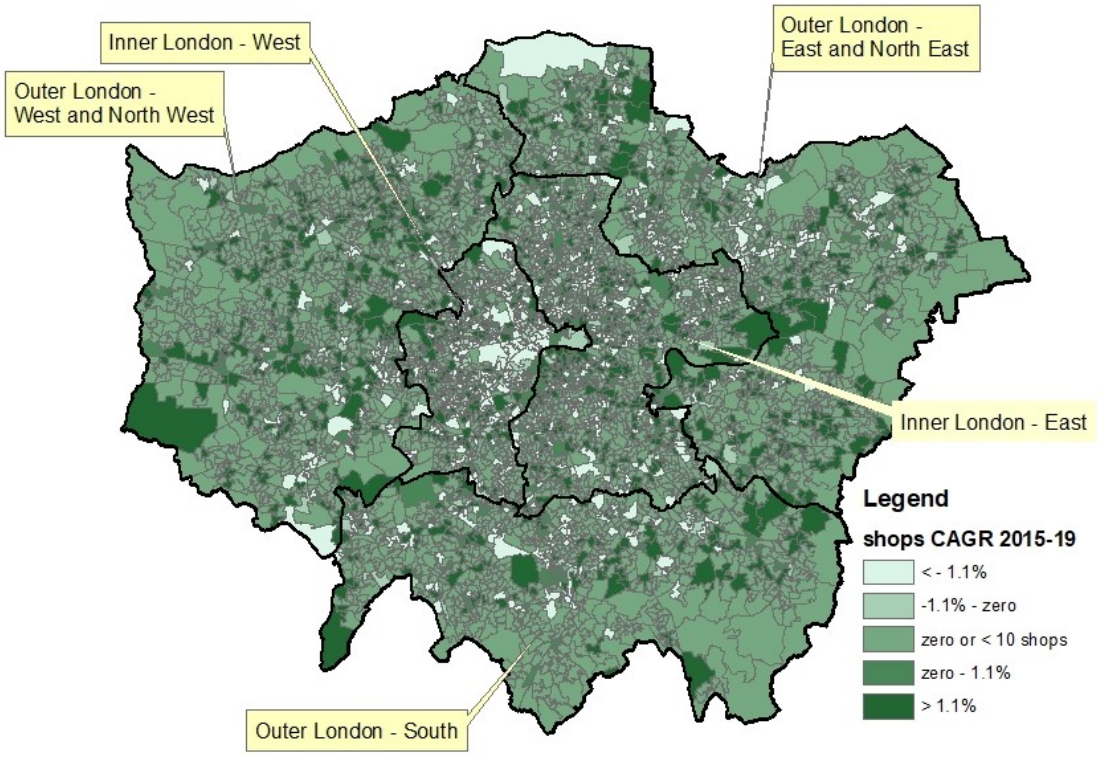
Figure 3.7: Numbers and proportions of LSOAs with no shops, and no retail shops, 2013-19

Shops and retail shops have been expanding across London



Source: GLA Economics analysis of LDC data

Map 3.2: Annual growth in shops 2015-19 by LSOA

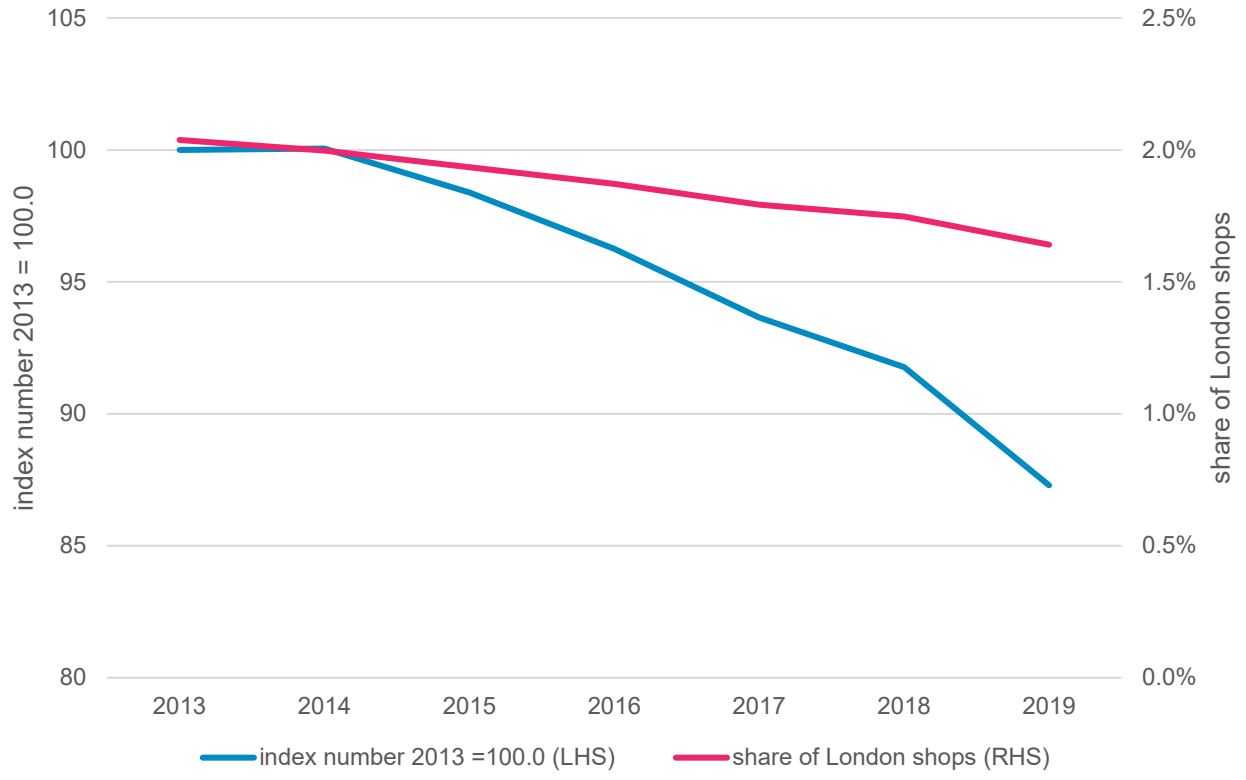


Source: GLA Economics analysis of LDC data. Note: 1.1% is 2015-19 CAGR of shops across London

There has not, though, been a shift in shops to London's most deprived areas, the Regeneration Areas. These are areas in London in the 20% most deprived areas in England as measured by the Index of Multiple Deprivation (IMD) [55]. They represent 16% of London's LSOAs, but provide less than 2% of shops. Unlike much of the rest of London the number of shops is falling, and this is accelerating. The number of shops has fallen by 13% between 2013 and 2019, and the share of London shops has fallen from 2.0% to 1.6%, (Figure 3.8). Map 3.3 shows where the Regeneration Areas are – they are deciles 1 and 2 of the IMD.

Figure 3.8: Trend in shops in Regeneration Areas, and share of London shops, 2013-2019

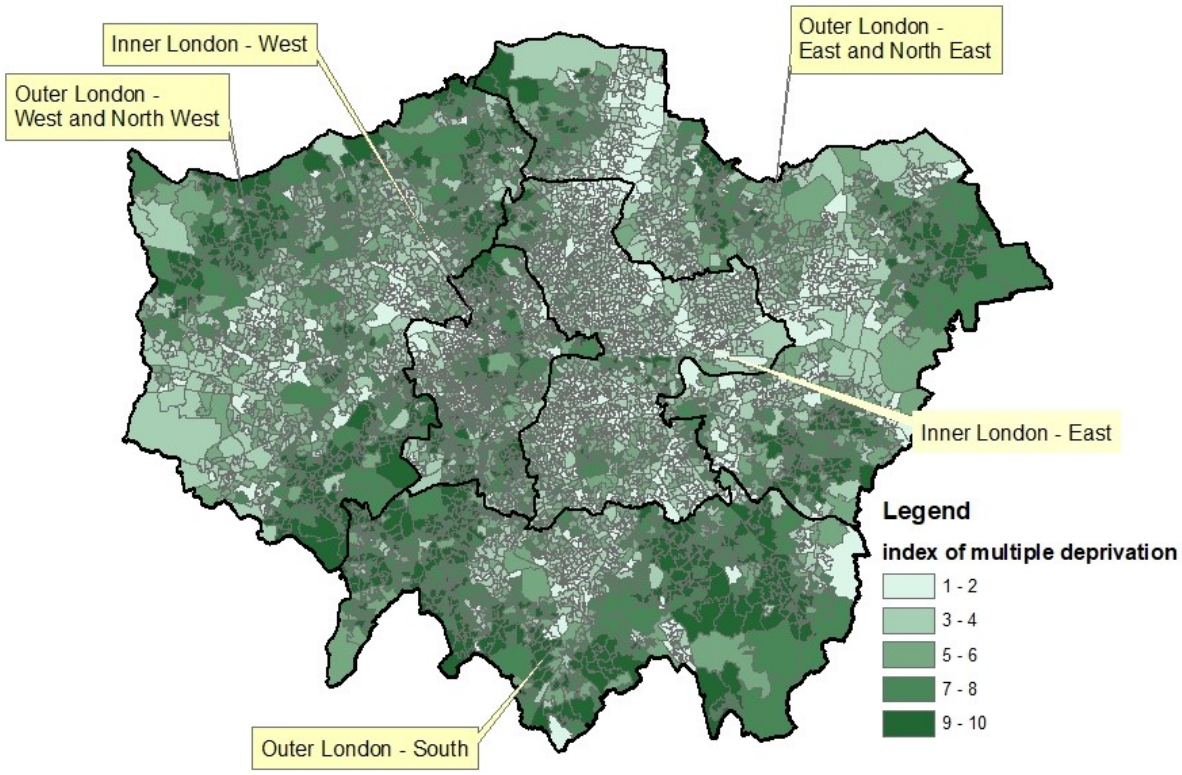
The number of shops is not increasing in all areas of London as is apparent for Regeneration Areas



Source: GLA Economics analysis of LDC data and MHCLG English Indices of Deprivation 2019

[55] This paper uses IMD 2019

Map 3.3: Index of Multiple Deprivation by London LSOA, 2019



Source: GLA Economics analysis of LDC data and MHCLG English Indices of Deprivation 2019

Off-street shopping developments have been an important means to expand the number of shops in London. This analysis defines a shopping development as one which is self-contained, and where the shops are not facing a street. So, it includes arcades, farmer's markets, and shops in stations as well as shopping centres and retail parks. Appendix D provides more information.

They make up less than 15% of shops, but account for 30% of the growth in London's shops between 2013 and 2019, and their rate of growth is accelerating. The growth in these off-street shopping developments has been mostly outside London's main shopping and other areas with the exception of BIDs. Specifically, it is the developments of 1-5 shops which are most likely to be outside these areas. It may have been the opening and closing of these developments which has contributed to the fluctuations in LSOAs with shops as it may be comparatively straightforward to set up a shop where there are existing facilities. The larger shopping developments tend disproportionately to be in London's main shopping areas except for the CAZ.

3.4 The retail response of the main shopping and other areas

Despite the loss of comparison shops and the risks this brings, and the expansion of shops outside the main shopping and other areas, the response of these areas has been to diversify.

Appendix E reports on how the high street is evolving, and provides analysis for OS high streets. It concludes that:

- High streets are more important in London than elsewhere in Britain as places to live and work because:
  - per high street more people live or work there;
  - relatively more people in the region live or work there.

- Population and employment is growing faster on high streets than elsewhere across Britain
  - For every London local authority the proportion of the population living near high streets is greater than for Britain as a whole.
  - Across most London local authorities employment growth is faster on high streets than elsewhere.

- At the same time retail employment is relatively less important than in Britain, and across London local authorities its share of high street employment is declining.

- In its place, the employment share of the leisure sector in the form of Accommodation and food services is rising.

Appendix F concludes that retailing in the main shopping and other areas as a whole in London has been reasonably resilient to the changes they have been facing. London's retail and leisure shop vacancy rate has remained three percentage points below that of Britain, and the vacancy rate of the main shopping and other areas has remained below the national rate. The rate is lowest in the CAZ, and highest in OAs. Despite benign economic conditions the rate has been rising since 2016 in London, across the main shopping and other areas except for the CAZ, and nationally. The growth in shops may have contributed, and part of this has been from off-street shopping developments.

Most shopping and other areas are managing the growth in shopping units, that is occupied and non-occupied shops. There are two areas of concern:

- Potential oversupply of shops in some areas
  - 33% of local authorities and 23% of OAs have vacancy rates persistently above the London average;
  - In over 70% of local authorities and 60% of OAs both the number of shops, and number of vacancies has been rising.

- A declining role for shops in some of the main shopping areas
  - In 40% or more of town centres and high streets shop numbers are falling.

To complete the picture it will be necessary to assess the scale and nature of future demand to inform spatial planning for these areas.

It has already been mentioned that a loss of comparison shops (because of e-commerce) is associated with a loss of shops (and the reverse) for local authorities, and high streets, but not town centres.

Chapter 4 – Drivers of change: consumer preferences, and technology

4.1 Overview and main findings

The retail sector is continually evolving. Consumers make choices based on the available range, cost, convenience, and the shopping experience. Other developments such as changing income levels will bear on the extent to which households spend their money on retail items. The development of online shopping has transformed the number of products which are readily available, and so the use of shops. Shops, in turn, have responded to these developments. This chapter explores all of this.

Spending on retail and leisure commodities is growing faster than all spending, and would support larger retail and leisure sectors:

- Around a third (34%) of consumer expenditure by Londoners is on commodities which correspond broadly to the retail sector;
- A little under another quarter (23%) is on leisure activities;

Some shops in the centre of London have large numbers of international visitors:

- London is the third most popular city destination in the world for international visitors;
- 66% of international visitors go shopping;
- As much as half of £12bn retail sales in the two international town centres may be by overseas visitors.

Most shopping trips are for essential items, and trips per person has been in decline:

- Trips to essential shops and amenities are the most common reason to visit the high street;
- The majority of shopping and business trips take under 15 minutes;
- Shopping trips per person in London have been declining since 2002/3, although they have stabilised in the last few years;
- There is less need with the internet to go for trips for one-off items.

E-commerce is broadly based, and expanding:

- The growth in households in Britain with internet has risen steadily over the last 20 years and growth is now easing off as over 90% of households have access;
- The proportion of retail goods sales over the internet is still rising steadily with no sign of slowing down and was over 19% of sales in 2019;
- The internet-only retailers have only done as well as all retailing in terms of retail goods sales growth, growing by just under 125%, after inflation, in the period 2008 to 2018;
- All types of store have established an online presence;
- Over half of clothing and footwear sales are over the internet;
- Retailers with clothing stores have a substantial reliance on internet sales.

E-commerce is impacting on specific types of shops:

- The numbers of Clothes & Fashion stores and department stores have been falling;
- Store-based clothing retailers have a substantial reliance on internet sales;
- The numbers of book and music stores in London have stabilised.

4.2 Changing consumer preferences

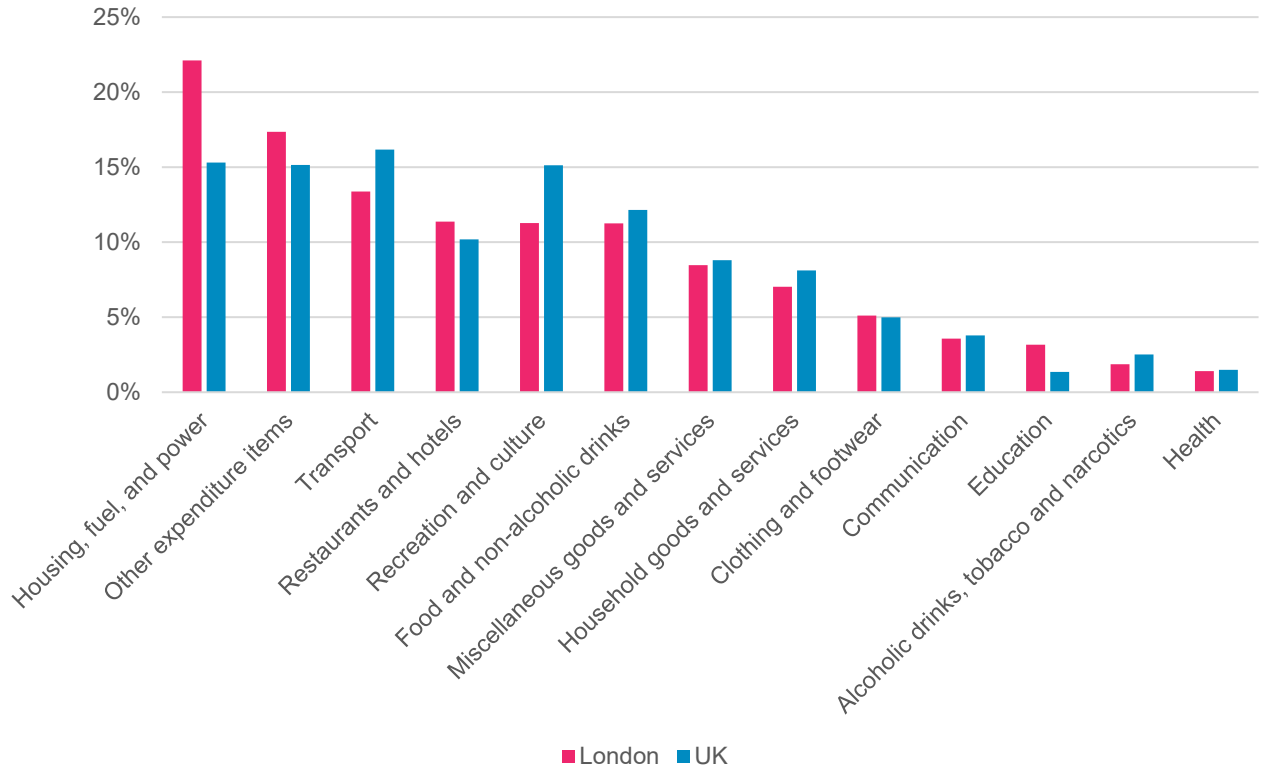
4.2.1 Expenditure and shopping patterns

Average weekly household spend in London is around £686 a week, around 20% higher than in the UK. Total expenditure in London across households is 15% of the UK total. Household expenditure goes well beyond retail commodities, including, for example, housing and transport. London has a comparatively high share of expenditure on housing, which may reduce the income available for discretionary activities such as recreation and culture. Lower car ownership in London may result in lower transport expenditure.

Around a third (34%) of consumer expenditure by Londoners is on commodities which corresponds broadly to the retail sector, that is food and drinks, clothing and footwear, household and miscellaneous goods and services. A little under another quarter (23%) is on leisure activities, that is restaurants and hotels, and recreation and culture, (Figure 4.1). The proportions for the UK are 37% and 25% respectively. Expenditure on individual retail and leisure commodities has been growing faster than all spending except for food and drink, and (in London) recreation and culture, (Figure 4.2). That is, spending patterns would support larger retail and leisure sectors.

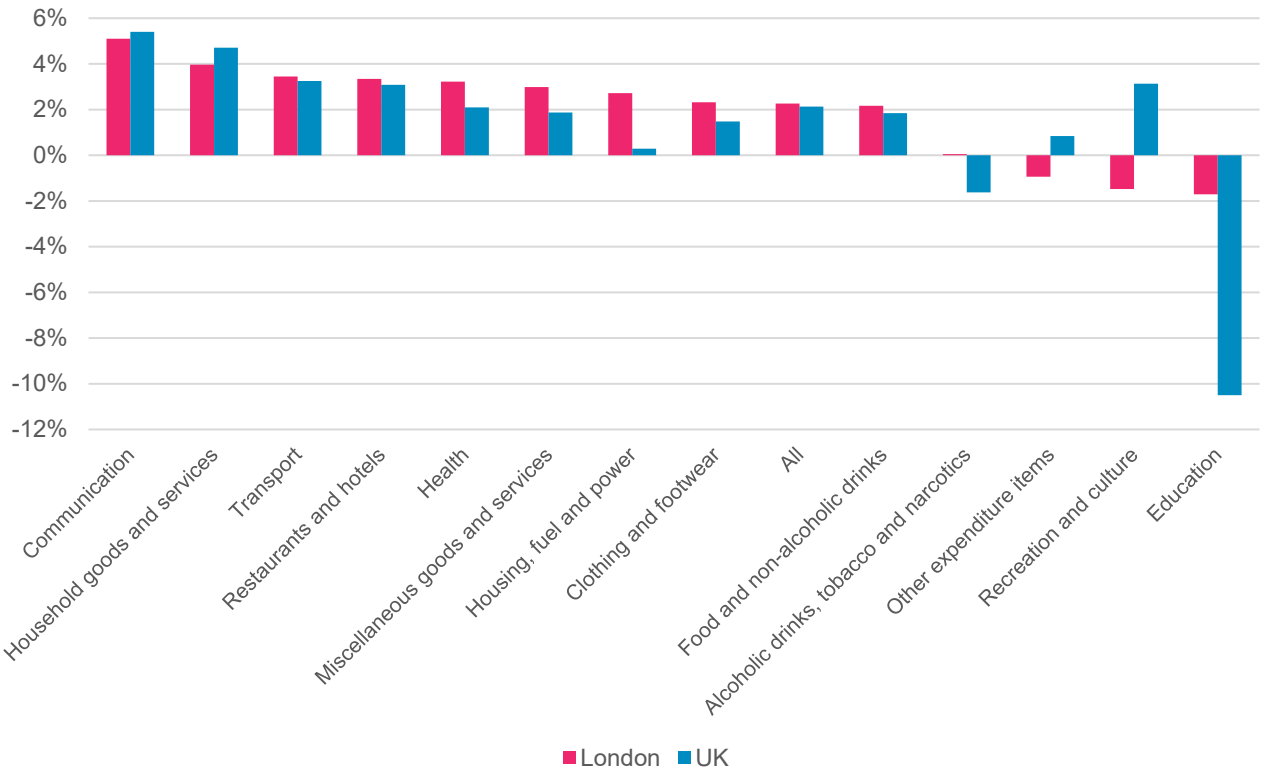
Figure 4.1: Shares of expenditure by commodity, London and the UK, 2016/17-2018/19

Retail-related spending is around a third of all consumer spending in London, and is growing faster than all spending



Source: ONS Family Spending

Figure 4.2: Annual growth of consumer expenditure by commodity, London and the UK, 2012/13-2014/15 to 2016/17-2018/19



Source: ONS Family Spending and Consumer Trends implied deflators, and GLA Economic calculations
Note: Consumer expenditure has been deflated to 2018/19 prices using UK commodity-specific deflators

Trends in shop numbers provide one way to consider changes in spending patterns for the physical retail and leisure sectors. Restaurants and food takeaways are the most common type of shop in London, accounting for over 15% of all shops, (Table 4.1). The strongest growing types of shops are barbers, and in hair and beauty. Other types of shops are reducing in numbers, such as clothes and fashion stores, and estate agents, and this might be attributed to the growth in e-commerce. Bookmakers, newsagents, and banks & building societies are the other types of shop in the top 20 in decline, and again the provision of online services might be a factor.

Table 4.1: Top 20 shop types in London, 2019, share of all shops, and annual growth 2015-19

Restaurants and food takeaways are the most common type of shop in London.
E-commerce is impacting on specific types of shops, such as clothes and fashion stores

Rank	Business type	Category	Shops 2019	% of shops	Cumulative % all shops	CAGR 2015-19
1	Restaurants	Leisure	8563	8.4%	8.4%	2.9%
2	Food Takeaways	Leisure	7560	7.4%	15.8%	2.2%
3	Clothes & Fashion	Comparison	6424	6.3%	22.1%	-1.6%
4	Convenience Stores	Convenience	4598	4.5%	26.6%	2.8%
5	Cafe & Tearoom	Leisure	4470	4.4%	30.9%	2.1%
6	Public houses, Inns & Bars	Leisure	3726	3.6%	34.6%	0.3%
7	Estate Agents	Service	3516	3.4%	38.0%	-0.6%
8	Beauty, & Hair & Beauty Salons	Service	3254	3.2%	41.2%	5.2%
9	Hairdressers	Service	2740	2.7%	43.9%	-0.9%
10	Barbers	Service	2366	2.3%	46.2%	8.1%
11	Chemists / Toiletries	Comparison	1708	1.7%	47.9%	2.3%
12	Grocers	Convenience	1665	1.6%	49.5%	-0.1%
13	Dry Cleaners	Service	1658	1.6%	51.1%	0.1%
14	Bookmakers	Leisure	1567	1.5%	52.7%	-3.2%
15	Newsagents	Convenience	1382	1.4%	54.0%	-4.2%
16	Mobile Phone Shops	Comparison	1156	1.1%	55.2%	3.0%
17	Charity Shops	Comparison	1128	1.1%	56.3%	3.0%
18	Bakers Shops	Convenience	1126	1.1%	57.4%	3.0%
19	Dentists	Service	1123	1.1%	58.5%	3.0%
20	Banks and Building Societies	Service	1118	1.1%	59.6%	-6.1%

Source: GLA Economics analysis of LDC data

Note: This table uses the LDC proprietorial definition of shop types. Other GLA analysis will typically use ONS definitions. Notably, GLA analysis of trends in public houses has been reporting a fall in numbers, or no net loss[56]

It can be speculated that the profile of shops in poorer areas of London might be different to that for London as a whole. To look at this Table 4.2 replicates Table 4.1. 17 out of the top 20 shop types are the same on both lists. Noticeably, the number one for the whole of London, namely restaurants, does not feature on the second list. Similarly, charity shops and dentists are more common across London, while garage services, supermarkets, and beauty product shops are more common in regeneration areas. (Charities benefit from business rates relief, and this is considered in Appendix G.) For the 17 matched shop types, the trend in growth in shops is the same for 14 of these shop types. The differences are pubs and dry cleaners where there is contraction in regeneration areas, and estate agents where there is contraction across London.

[56] See, for example, London's Pubs | London City Hall and Closing time: London's public houses | London City Hall

Table 4.2: Top 20 shop types in London's regeneration areas, 2019, share of all shops, and annual growth 2015-19

The profile of shops in regeneration areas is very similar to London as a whole

Rank	Business type	Category	Shops 2019	% of shops	Cumulative % all shops	CAGR 2015-19
1	Food Takeaways	Leisure	1253	8.0%	8.0%	2.2%
2	Clothes & Fashion	Comparison	921	5.9%	14.0%	-1.6%
3	Convenience Stores	Convenience	802	5.1%	19.1%	2.8%
4	Cafe & Tearoom	Leisure	735	4.7%	23.8%	1.8%
5	Public Houses, Inns & Bars	Leisure	471	3.0%	26.8%	-0.5%
6	Beauty, & Hair & Beauty Salons	Service	467	3.0%	29.8%	5.1%
7	Grocers	Convenience	446	2.9%	32.7%	-1.1%
8	Barbers	Service	410	2.6%	35.3%	8.3%
9	Hairdressers	Service	393	2.5%	37.9%	-1.7%
10	Estate Agents	Service	374	2.4%	40.3%	0.7%
11	Bookmakers	Leisure	296	1.9%	42.2%	-2.2%
12	Chemists / Toiletries	Comparison	293	1.9%	44.0%	2.1%
13	Newsagents	Convenience	236	1.5%	45.5%	-4.0%
14	Dry Cleaners	Service	205	1.3%	46.9%	-0.5%
15	Mobile Phone Shops	Comparison	200	1.3%	48.1%	3.2%
16	Bakers Shops	Convenience	180	1.2%	49.3%	1.4%
17	Garage Services	Comparison	174	1.1%	50.4%	3.8%
18	Supermarkets	Convenience	167	1.1%	51.5%	0.2%
19	Beauty Product Shops	Comparison	155	1.0%	52.5%	1.5%
20	Banks and Building Societies	Service	146	0.9%	53.4%	-4.4%

Source: GLA Economics analysis of LDC data and MHCLG English Indices of Deprivation 2019

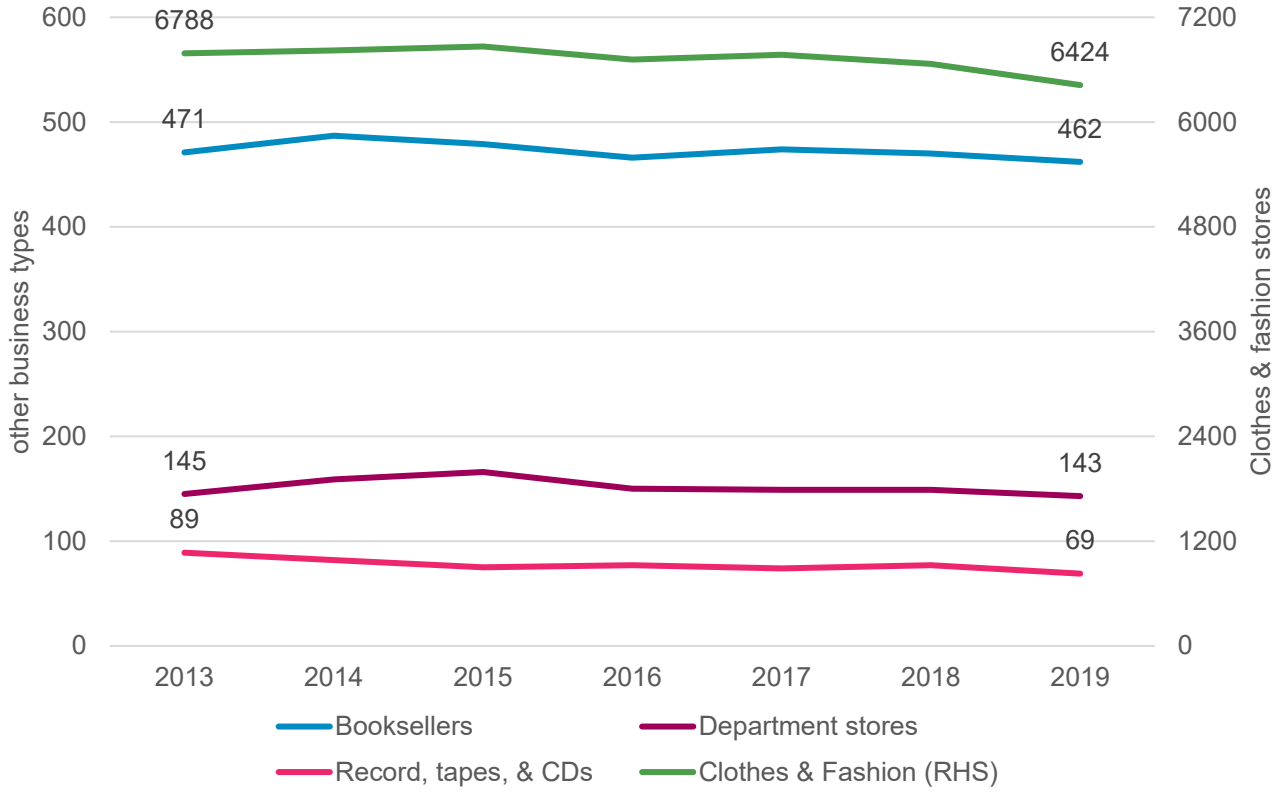
As well as clothes and fashion stores e-commerce has impacted on the viability of department stores. Much of the news about retail businesses going into administration is about these two types of shop[57]. More optimistically, two of the types of shop adversely impacted in the early stages of online shopping, namely book and record shops, have stabilised in numbers, (Figure 4.3). Further, not all types of comparison shops seem to be at risk from e-commerce, (Figure 4.4). Despite a slight annual decline overall between 2015 and 2019, there was growth for:

- Taxis and transports, which includes garages, and petrol filling stations;
- Health and beauty, which includes chemists;
- Home and garden, which includes builders' merchants, and kitchen planners. This category is more mixed as the numbers of certain types of shops such as DIY shops and furniture shops have fallen.

[57] See, for example, Who's gone bust in Retail?

Figure 4.3: Trends in types of comparison stores, 2013-2019

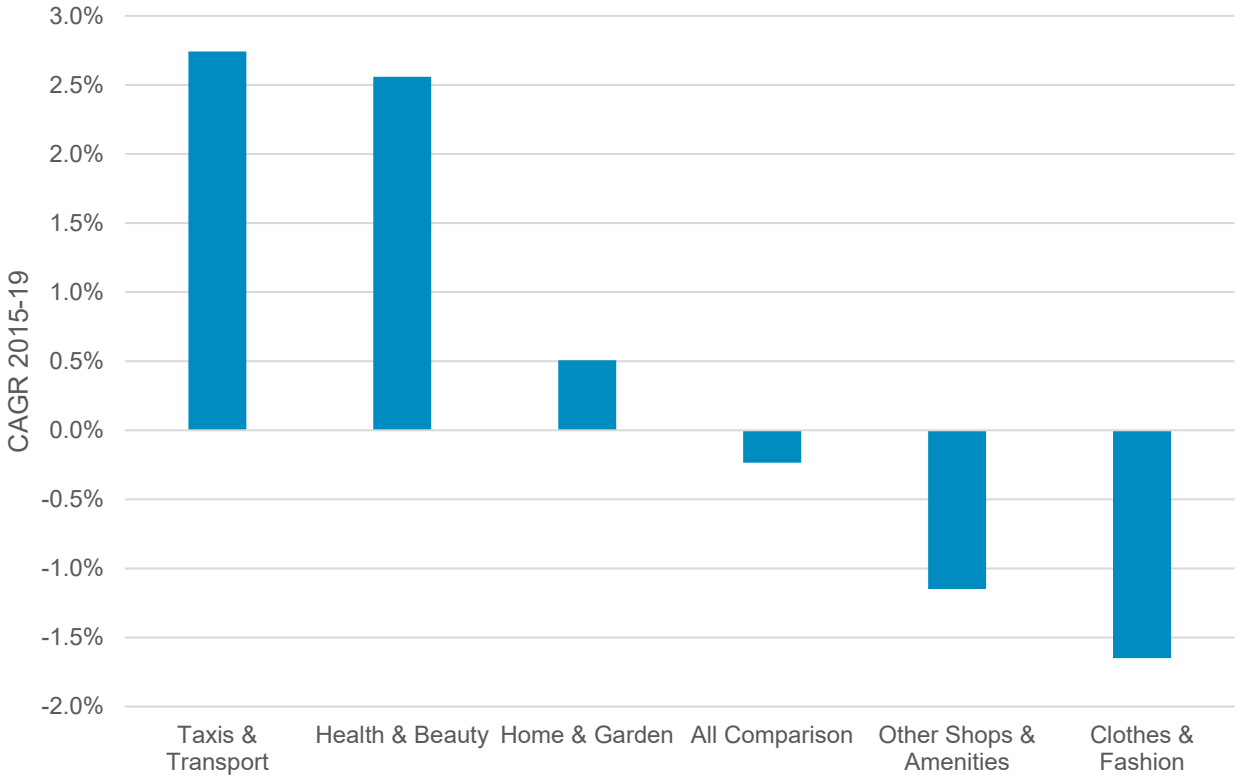
E-commerce is impacting on some types of comparison store, but this has not continued indefinitely



Source: GLA Economics analysis of LDC data

Figure 4.4: Annual change in types of comparison store in London, 2015-19

And there continues to be growth in some types of comparison store



Source: GLA Economics analysis of LDC data

4.2.2 International tourists

The population shopping in London is far more than London residents. In 2017 there were around 2m people more in London each day than the daytime population of 8.8m. Of the daytime population, 5.0m were in work, which includes 0.9m commuters from outside London[58], and there were 1.3m visitors both from the UK and beyond. London has the third most international arrivals of any world city with 19.6m arrivals in 2019[59]. These visitors are an important source of revenue for shops in London's West End and Knightsbridge.

Visitors are important both because of their numbers, and because they are an important source of income for shops in London's West End. At the same time, shopping is not the reason most visitors come to London[60]. More important are cultural amenities such as:

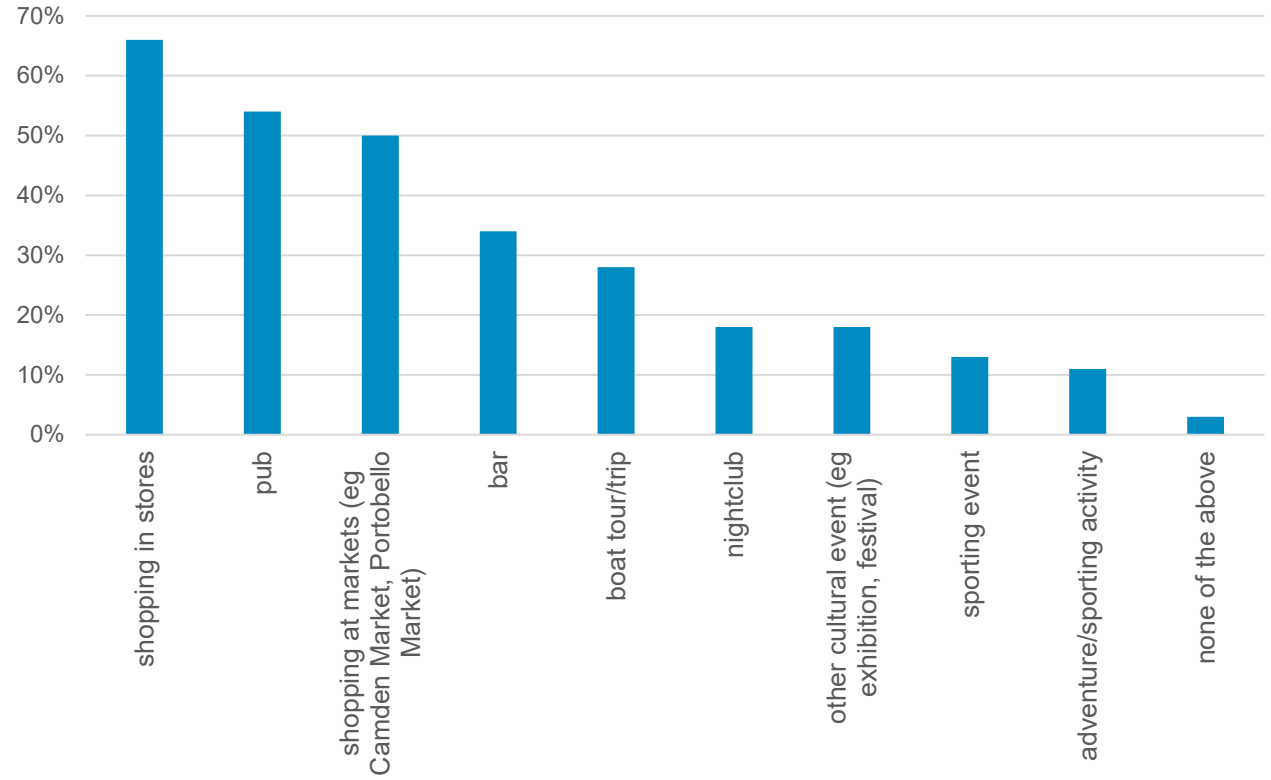
- historical landmarks, eg Big Ben, Tower of London;
- attractions, eg London Eye, Madame Tussauds;
- parks and waterways, eg Hyde Park, River Thames;
- museums and galleries.

[58] 2018 figure from ONS Annual Population Survey
[59] Source: Euromonitor International (2019), Top 100 City Destinations, 2019 edition
[60] Source: London & Partners (2016), London Visitor Survey 2016

Shopping at stores is the most popular entertainment activity with tourists, and 66% do this, while 50% go to markets, (Figure 4.5). High street shopping is the most common form of shopping, and 51% of visitors do this, while another 39% go to luxury department stores, (Figure 4.6).

Figure 4.5: Tourist entertainment activities in London

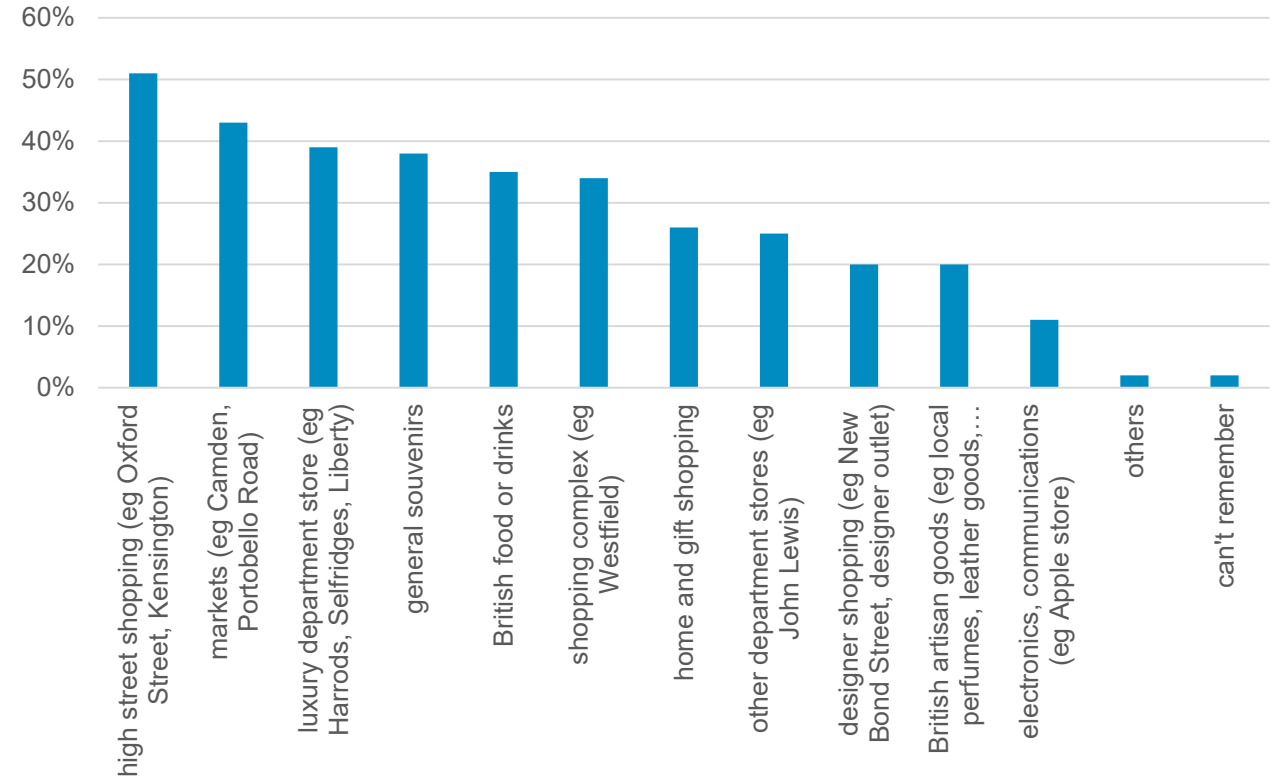
Shopping is a popular activity among visitors



Source: London & Partners (2016), London Visitor Survey 2016

Figure 4.6: Type of shopping experienced by visitors to London

A broad range of shopping experiences are popular with visitors



Source: London & Partners (2016), London Visitor Survey 2016

International tourists tend to remain in central areas of London, the areas where most serviced accommodation is[61], and so their expenditure will be concentrated in these areas. The London Plan classifies two town centres as International centres, the West End, and Knightsbridge – the West End is the town centre with the largest numbers of shopping units at nearly 2,500 in 2019 compared to less than 600 for all other town centres[62]. The New West End Company estimates that around half of the £12bn retail sales in these two centres is by overseas visitors[63]. As corroboration that international tourism is important to shops in the West End it has been estimated that 30% of shoppers in Oxford and Regent Street in 2011 were non-domestic. A 2013 study estimates that over a quarter of spending in the International centres is by tourists[64]. The subsequent growth in international visitors means the proportion now is likely higher[65].

GLA Economics has estimated that the losses to the CAZ in 2020 from COVID-19 were £10.9bn, 64% lower than it would otherwise have been. This breaks down as £3.5bn from domestic tourists, 51% lower, and £7.4bn from international tourists, 78% lower. In contrast, the losses from commuting were £1.9bn[66]. These figures exclude spend on transport, and so will approximate expenditure on the retail, leisure, and

[61] See Chapter 4 of London at night - an evidence base for a 24-hour city | London City Hall
[62] See Appendix C. GLA estimates from Local Data Company data
[63] See NWEC (2020), The West End's asks of Government to support recovery
[64] As reported in Retail in London: Looking Forward | London City Hall
[65] See Volterra (2015), Economic importance of the West End & extending Sunday trading. Chapter 4 of London at night - an evidence base for a 24-hour city | London City Hall provides more information on trends in international visitors
[66] See Lost worker vs. tourism expenditure in the Central Activities Zone (CAZ) during the COVID-19 Pandemic - London Datastore

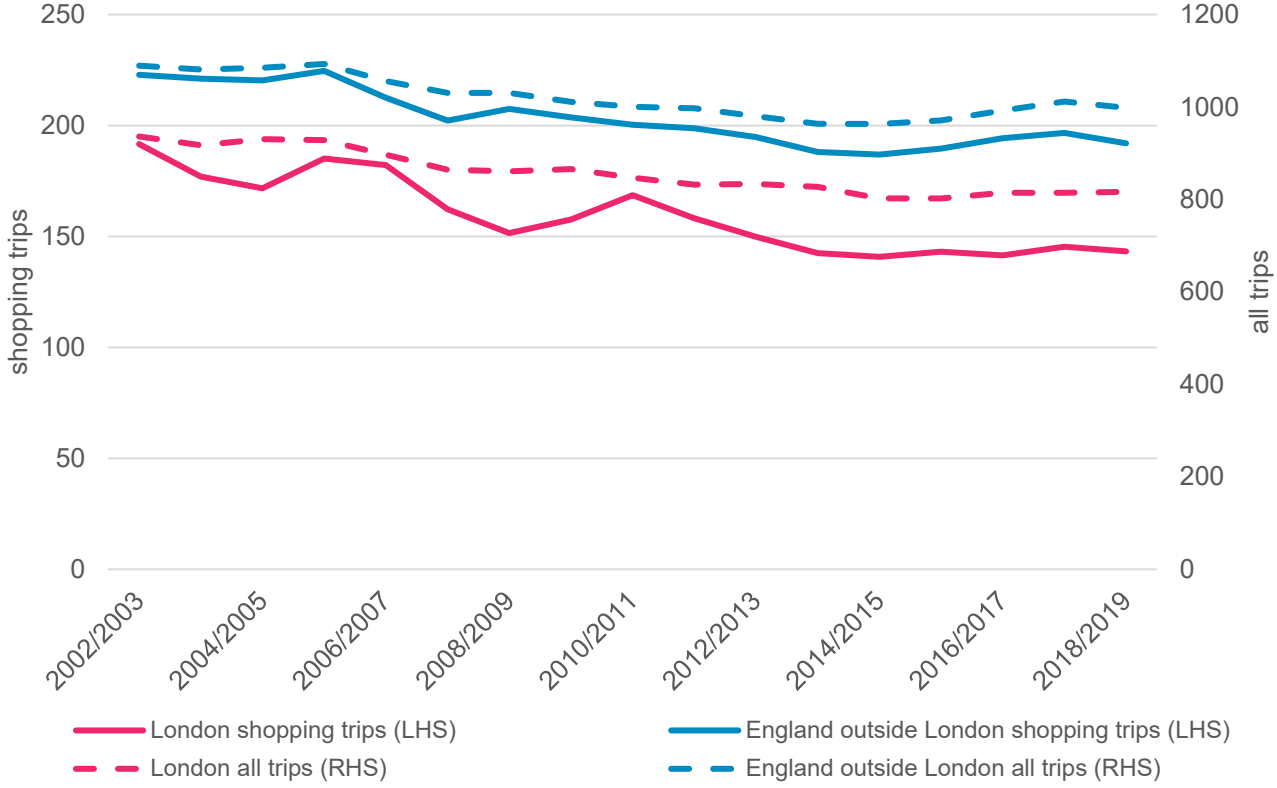
hospitality sectors. It is likely that a fair proportion of these losses will be felt by the retail parts of the International town centres[67], and that there will be a disproportionate impact on those centres.

4.2.3 Travel patterns

An indicator of the demand for shops is shopping trips. Since 2002/3 (the first year for which this data is available) both the number of trips, and shopping trips, per person per year has been declining. Shopping trips have fallen by 25% in London, compared with 13% in the rest of England. The comparable figures for all trips are 13% and 8%, (Figure 4.7). In this time, London's population has grown by 21%, and that of the rest of England by 11%, so there has been a slight fall in total shopping trips in London. Note that the number of shopping trips per person has stabilised over the last few years.

Figure 4.7: Shopping and all trips, London and the rest of England, 2002/3-2018/19

Shopping trips per person have been declining in London, although have stabilised in the last few years



Source: DfT National Travel Survey

The fall in shopping trips started happening before the use of the internet became extensive. It may indicate that:

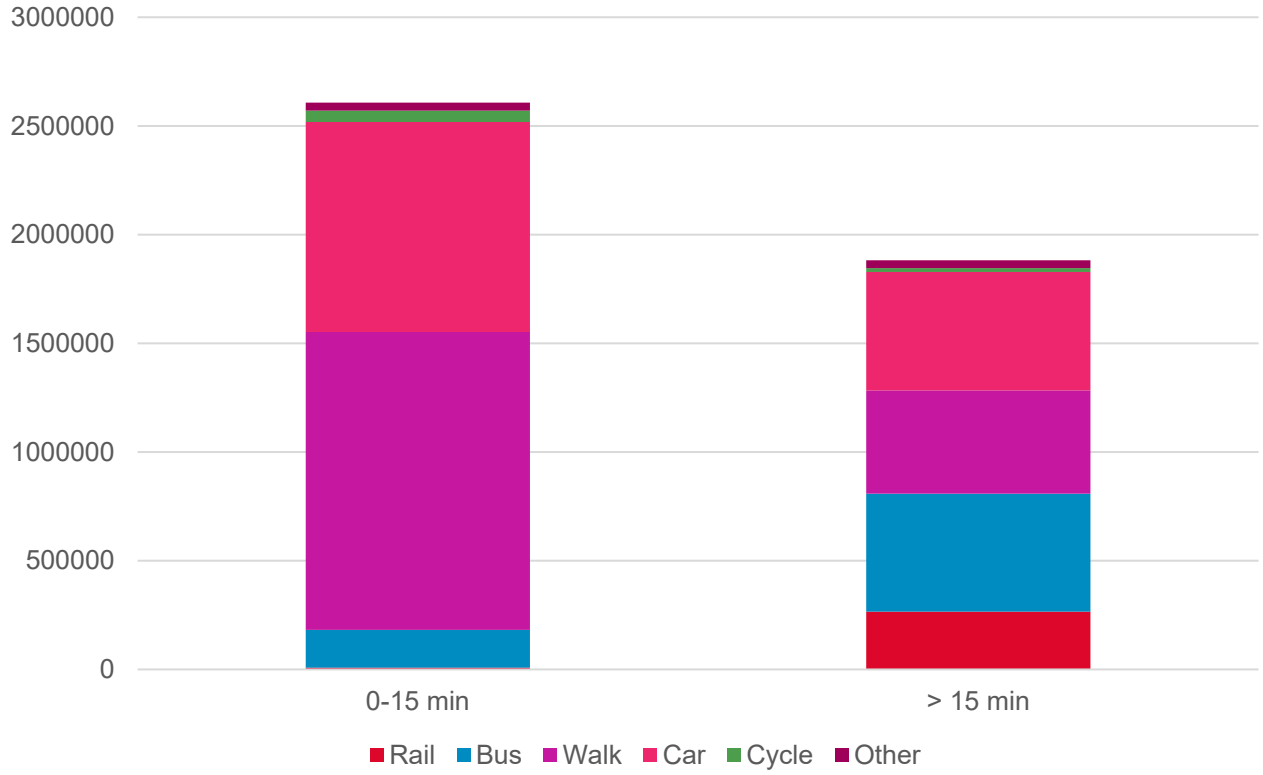
- More shopping may be done during trips for other purposes, such as commuting – there has, for example, been a rise in convenience stores, see above;
- Shopping may have become more of an experience, and may include other activities such as eating out – the internet provides an alternative way to buy goods.

[67] Kensington and Chelsea, Westminster, and the City of London are responsible for more than three quarters of international tourist spending. See Tourist Information: mapping the local value of international visitors | London First

Unlike trips to work most shopping trips in London are for less than 15 minutes, and over half of these trips are by foot, (Figure 4.8). For shorter and longer trips there is currently more reliance on car use compared to public transport.

Figure 4.8: Shopping and personal business trips in London, by length of trip, and mode of travel, annual average for 2016/17-2018/19

There is more reliance on the car than public transport for shopping trips

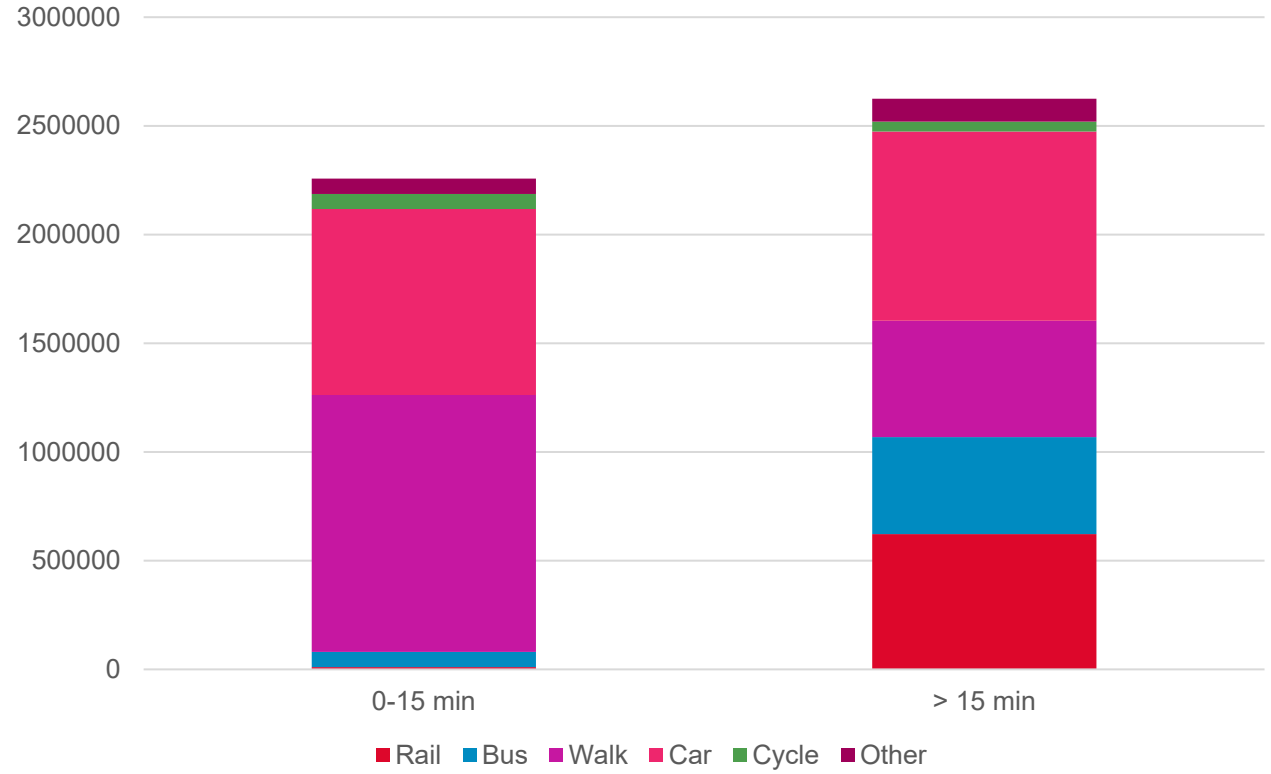


Source: TfL analysis of London Travel Demand Survey

In contrast, leisure trips in London are typically over 15 minutes, and while walking and car use remain significant as means of travel it is relatively more common for the longer trips to make use of public transport, (Figure 4.9).

Figure 4.9: Leisure trips in London, by length of trip, and mode of travel, annual average for 2016/17-2018/19

Longer leisure trips are more likely to make use of public transport

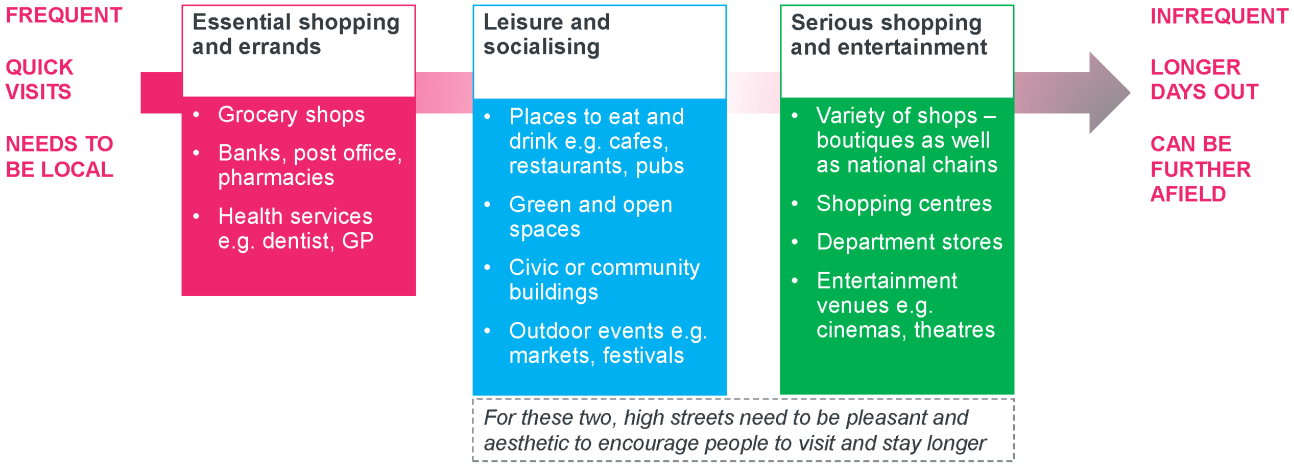


Source: TfL analysis of London Travel Demand Survey

This can be overlaid on reasons to visit the high street, (Figure 4.10). Quicker, and so shorter, trips would be for essential shopping and errands. Longer trips, which might be further afield, would be for leisure and socialising, or more major shopping trips or for entertainment. These types of trips are more likely to be encouraged where there is a more pleasant and aesthetic street environment.

Figure 4.10: Classification of visits to the high street

High street use broadly falls into three main categories



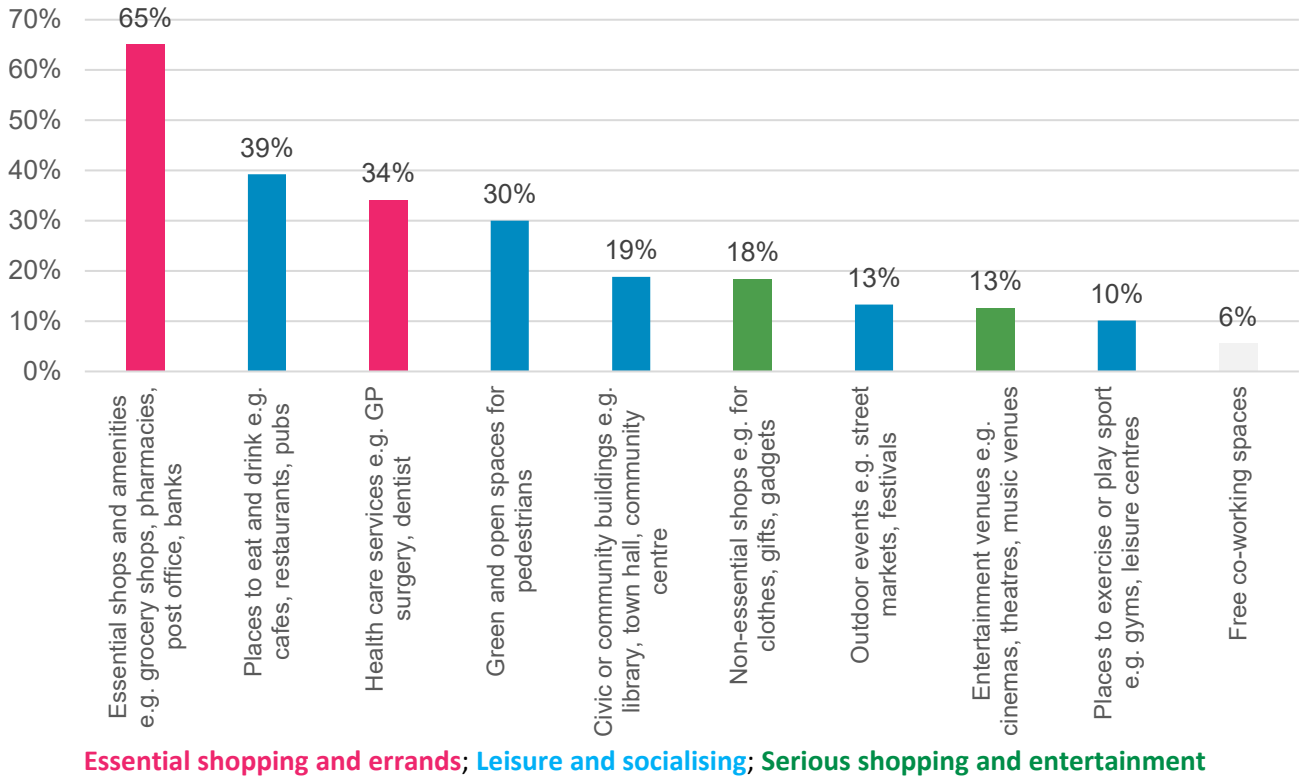
Source: GLA Opinion Research[68]

65% of Londoners prioritise essential shops and amenities for visits to their local high street. That is, quick visits are the most common. In comparison, 39% of Londoners prioritise leisure and socialising in the form of going to places to eat and drink, and 18% prioritise more major trips to non-essential shops, such as clothing stores, (Figure 4.11).

[68] See The future of London's high streets – London Datastore

Figure 4.11: Two or three most important reasons for Londoners to go to their local high street

Londoners prioritise shops and amenities on their local high street



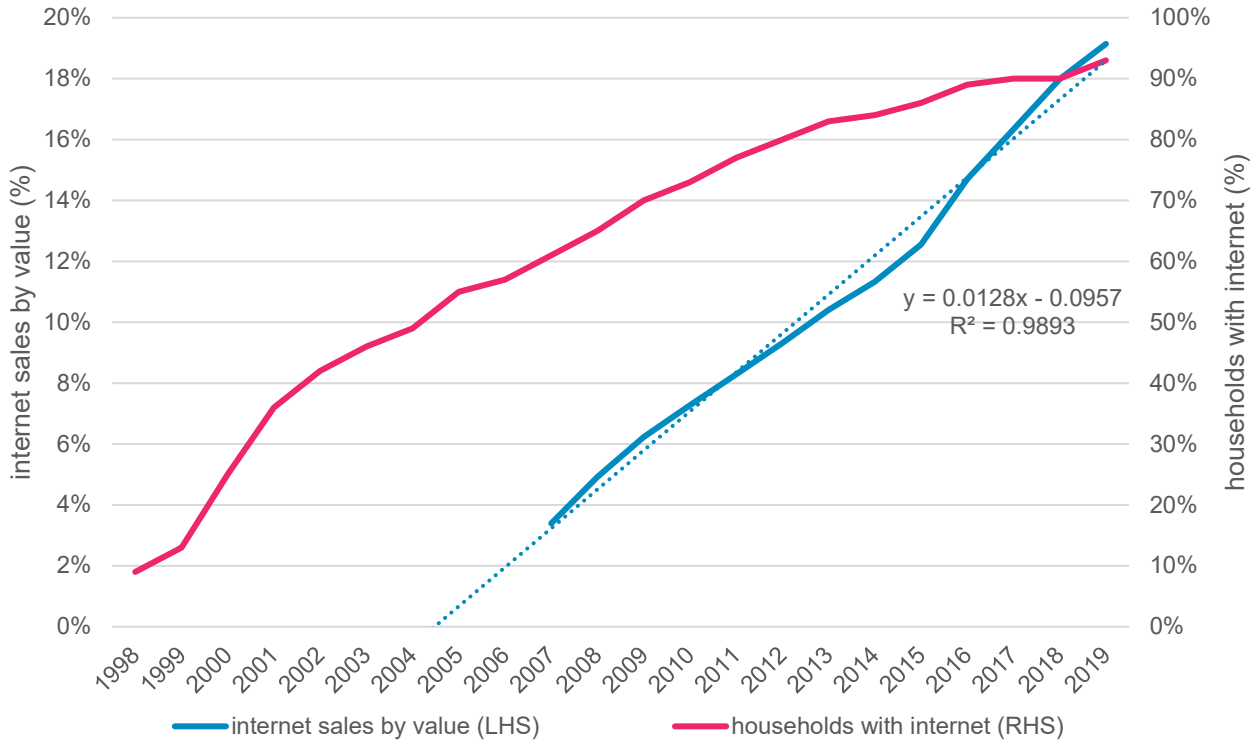
Source: YouGov survey for GLA, 8-11 June 2020

4.3 The growth in e-commerce

The growth in households in Britain with internet has risen steadily over the last 20 years and growth is now easing off as over 90% of households have access. In contrast, the proportion of retail goods sales over the internet is still rising steadily with no sign of slowing down and was over 19% of sales in 2019, (Figure 4.12).

Figure 4.12: Proportions of households with internet access, and retail goods sales over the internet, Great Britain, 1998- 2019

Internet sales continue to grow rapidly despite penetration of the internet easing off

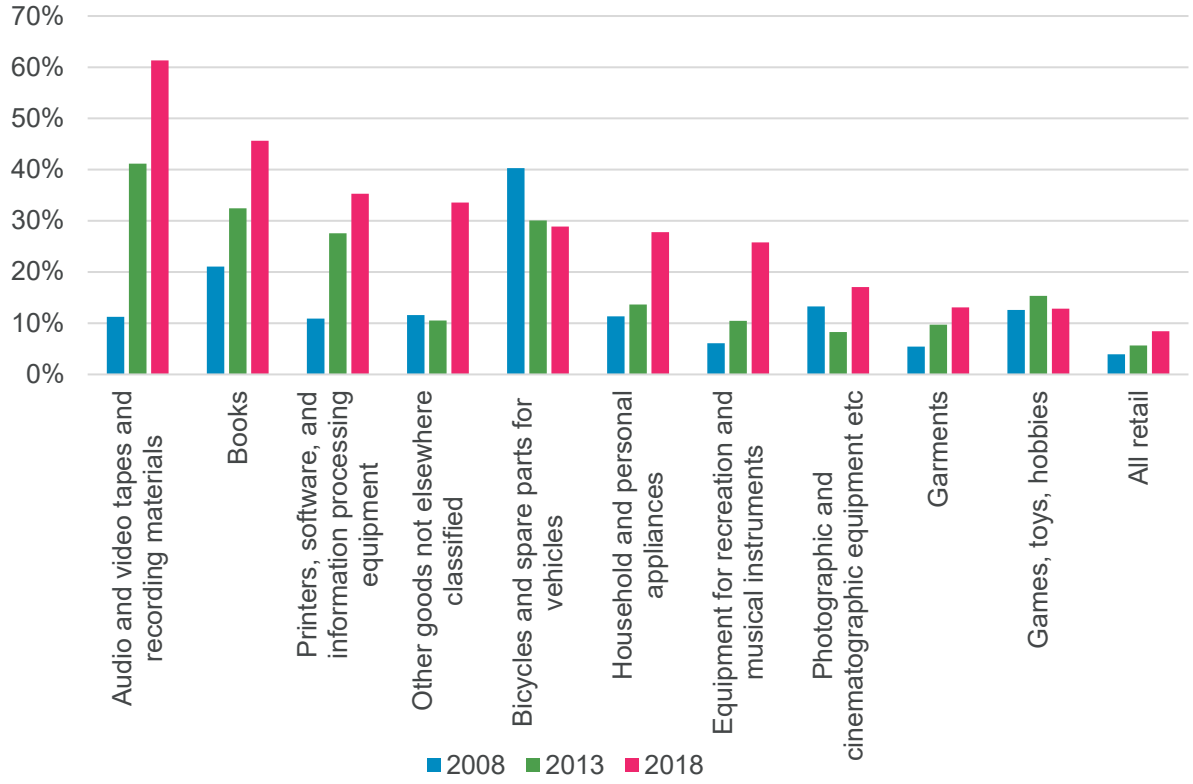


Source: ONS retail sales and ONS internet access – households and individuals
Note: household internet access figures 1998-2004 are for the UK

By 2008 internet-based firms had established a presence in sales across a range of commodities. Typically, as a share of sales of a commodity this has increased over time. For all retail goods this has increased from 4% to 8% by 2018. Commodities where a significant presence had been established early such as music and books have continued to see a significant expansion in internet presence. For other commodities the share of sales has increased more slowly, in the case of garments from 5% to 13% between 2008 and 2018, (Figure 4.13).

Figure 4.13: Internet-based firms share of retail turnover for top 10 commodities, UK, 2008-2018

Internet sales have become increasingly established across a broad range of commodities

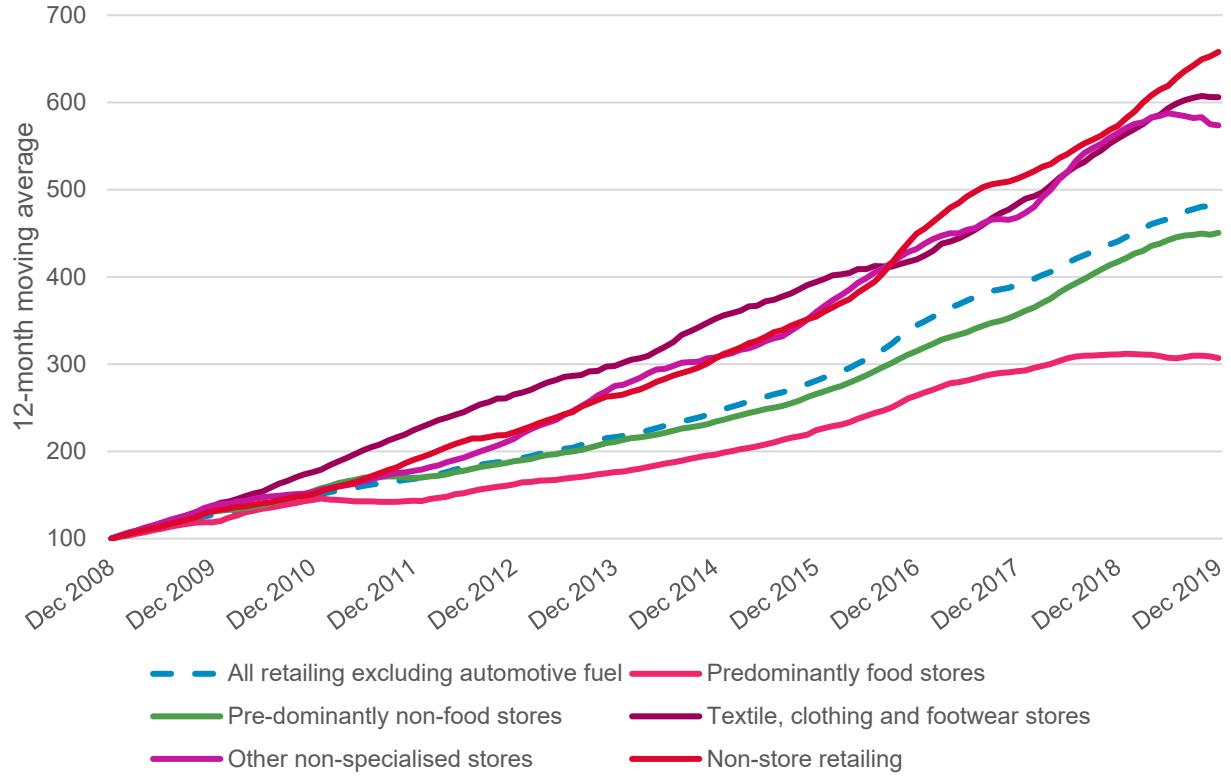


Source: ONS Annual Business Survey

In the 11 years from 2008 retail goods sales over the internet have risen by nearly 500% (in constant prices). There have been marked increases across all types of retailer. For internet-only stores growth has been 650%, for clothing and fashion stores it has been by over 600%, and for department stores (non-specialised stores) it has been by 575%. In contrast, for food retailers it has been by a little over 300%, (Figure 4.14).

Figure 4.14: Growth in internet retail goods sales by type of store, constant prices 12-month moving average, Great Britain, year to December 2008 – year to December 2019

All types of stores have established an internet presence

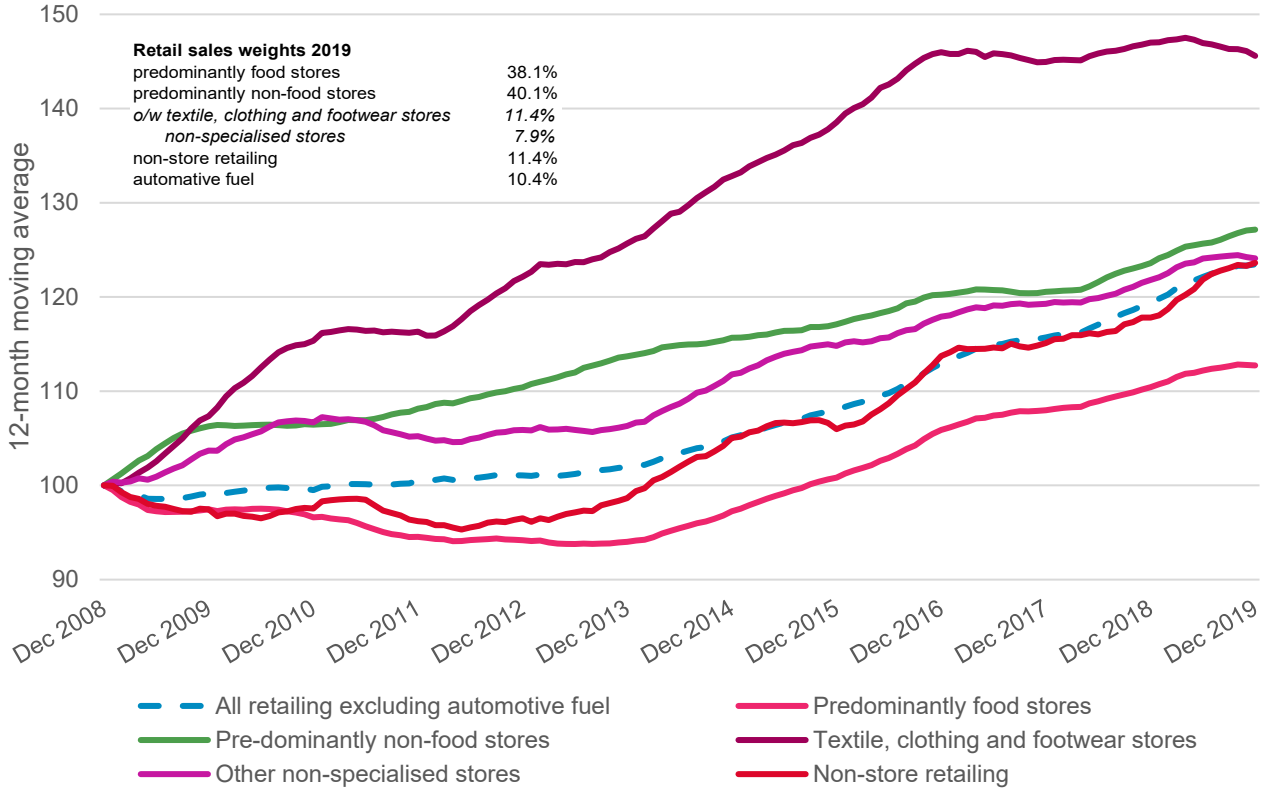


Source: ONS retail sales analysis
Note: conversion to constant prices using implied deflator for each store type

The internet-only retailers, though, have only done as well as all retailing in terms of retail goods sales growth, growing by just under 125% in the period 2008 to 2018, after inflation, (Figure 4.15). Food stores have again grown less than for retail goods overall, while clothing stores have exhibited the strongest growth at 145%. That is, for many businesses it has been possible to develop an effective strategy to maintain both a store and internet presence even if it has meant the closure of some shops.

Figure 4.15: Growth in retail goods sales by type of store, constant prices 12-month moving average, Great Britain, year to December 2008 – year to December 2019

Clothing and other retailers have been effective in developing a strategy to have both a store and internet presence

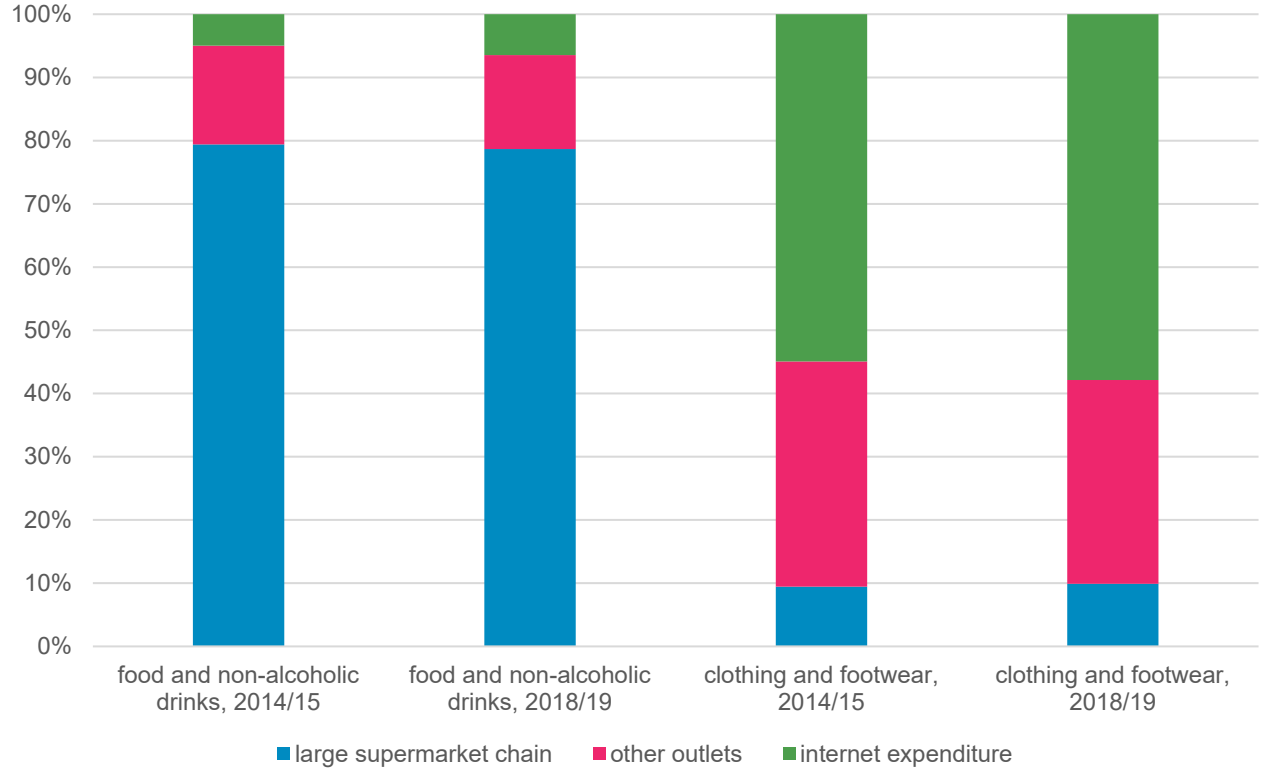


Source: ONS retail sales analysis
Note: conversion to constant prices using implied deflator for each store type

That said over half of consumer spending on clothing and footwear is over the internet. This proportion increased from 55% to 58% between 2014/15 and 2018/19, (Figure 4.16). This implies that retailers with clothing stores have a substantial reliance on internet sales. In contrast 80% of food and non-alcoholic drinks sales are in supermarkets.

Figure 4.16: Consumer expenditure on food and non-alcoholic drinks, and clothing and footwear by outlet, UK, 2014/15 and 2018/19

Over half of clothing and footwear sales are over the internet, so clothing retailers have a substantial reliance on internet sales



Source: ONS Family Spending

Chapter 5 – Drivers of change: rising costs

5.1 Overview and main findings

The retail sector faces particular pressures from increases in the minimum wage, changes in the immigration regime with EU exit, and business rates revaluation. This chapter considers how they apply.

Increases in the national minimum wage, and for over 25s the National Living Wage, have typically been below 5% since 2007. The retail goods sector might be particularly affected by increases, as it might bring relatively more workers onto this wage, and encourage firms to increase the wages of employees above the minimum to maintain pay differentials:

- Average hourly pay in London in the bottom decile of the retail goods sector in April 2019 was £8.25, barely above the minimum wage at the time of £8.21;
- Wage growth across the deciles is low compared with the London and UK economies.

The new immigration regime from January 2021 seeks to prevent the filling of low paid jobs from overseas. Only 45% of retail goods jobs in London are filled by UK nationals. The corresponding figure for Accommodation and food services is 34%. Other things being equal this will place upward pressure on wages.

The timing of the 2017 business rates revaluation may have been unfortunate for retail businesses:

- It assessed rateable values up to April 2015;
- Since 2015, some of these businesses have been moving to more marginal sites suggesting that competition from other quarters has made business rates unaffordable;
- Retail rateable values in the CAZ were 46% higher than the values for all businesses in the CAZ, and 50% higher than for offices in 2019/20;
- Business rateable values per metre squared are higher for retail businesses than all businesses across London, town centres, high streets and the CAZ;
- Business rateable values per metre squared are higher for retail businesses than offices in the CAZ;
- Business rateable values per metre squared rose faster for retail businesses than all business across London, town centres, and the CAZ
    - For the CAZ the ratio of rateable values rose from 124% to 149%.

The 2017 business rates revaluation made marked changes across London:

- The increase for the retail sector of 26.8% was higher than for other sectors in London;
- The increase for Westminster was 62%, and the average across 10 local authorities in London was over 20%;
- Retail rates fell for only three local authorities: Bexley, Merton, and Sutton.

Changes in the method of calculating collectible rates for individual businesses has phased in the implementation of these changes:

- Collectible business rates fell in 13 London local authorities between 2016/17 and 2018/19;
- Despite this London's collectible share of all business rates in England continued to increase in 2017/18 to 32.1% from 28.4% the year before.

It is not clear how the increase in business rates has impacted on the retail sector, and there is no apparent relationship with changes in floor space:

- This may reflect the lack of sufficient data to conduct a robust analysis;
- There may have been some offsetting effects from lower property rents.

To the extent that increased business rates are not reflected in lower rents it will increase costs for retail businesses in prime areas, and impact on viability.

The previous rates revaluation was in 2010. A consequence of infrequent rates revaluations, and retention of 50% of business rates by local authorities is that there is an incentive for local authorities to give planning permission to develop new areas over improving existing areas. It may have encouraged developments outside town centres and high streets.

A point to note is that the leisure sector, and within it Accommodation and food services, is also a low pay sector, and has expanded across London despite facing similar pressures in terms of rising costs. This suggests that rising costs from increases in the minimum wage, and business rates can only be a partial explanation of trends in the retail sector.

Appendix G on Support for retail businesses through the business rate system supports this chapter.

5.2 Increases in the minimum wage

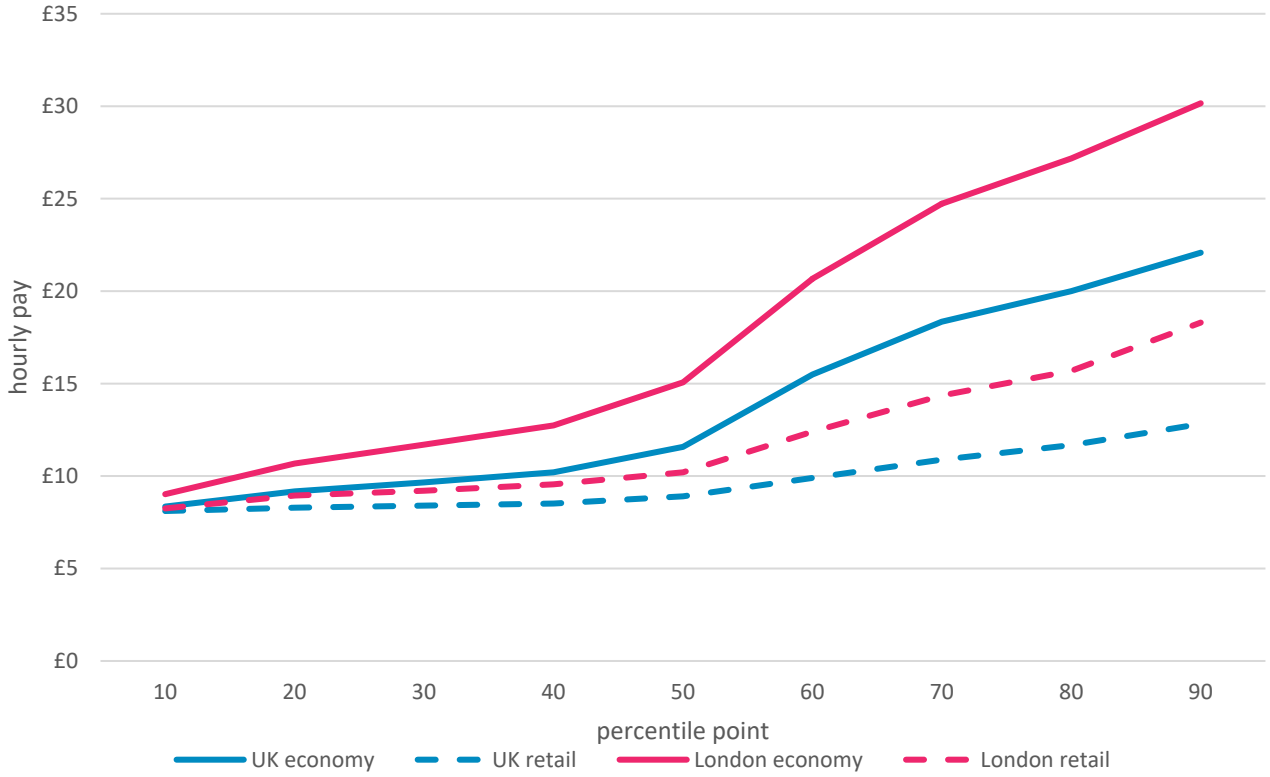
From April 2016 the Government renamed the minimum wage as the National Living Wage and committed to increasing it to 60% of median earnings by 2020[69]. This commitment has a bearing on low wage sectors, such as the retail goods sector.

Average hourly pay in London in the bottom decile of the retail goods sector in April 2019 was £8.25, barely above the minimum wage at the time of £8.21. Wage growth across the deciles is low compared with the London and UK economies, and at all points retail goods wages in London are below the UK average for all employee jobs, (Figure 5.1). Large increases in the minimum wage may bring more workers onto this wage and encourage firms to increase the wages of employees above the minimum to maintain pay differentials. That is, changes may have costs beyond pay increases for the lowest paid.

[69] See National living wage (NLW) - GOV.UK

Figure 5.1: Hourly pay by decile for employee jobs, retail goods and whole economy, London and the UK, 2019

Increases in the minimum wage impact on the retail goods sector as earnings of most employees are comparatively low

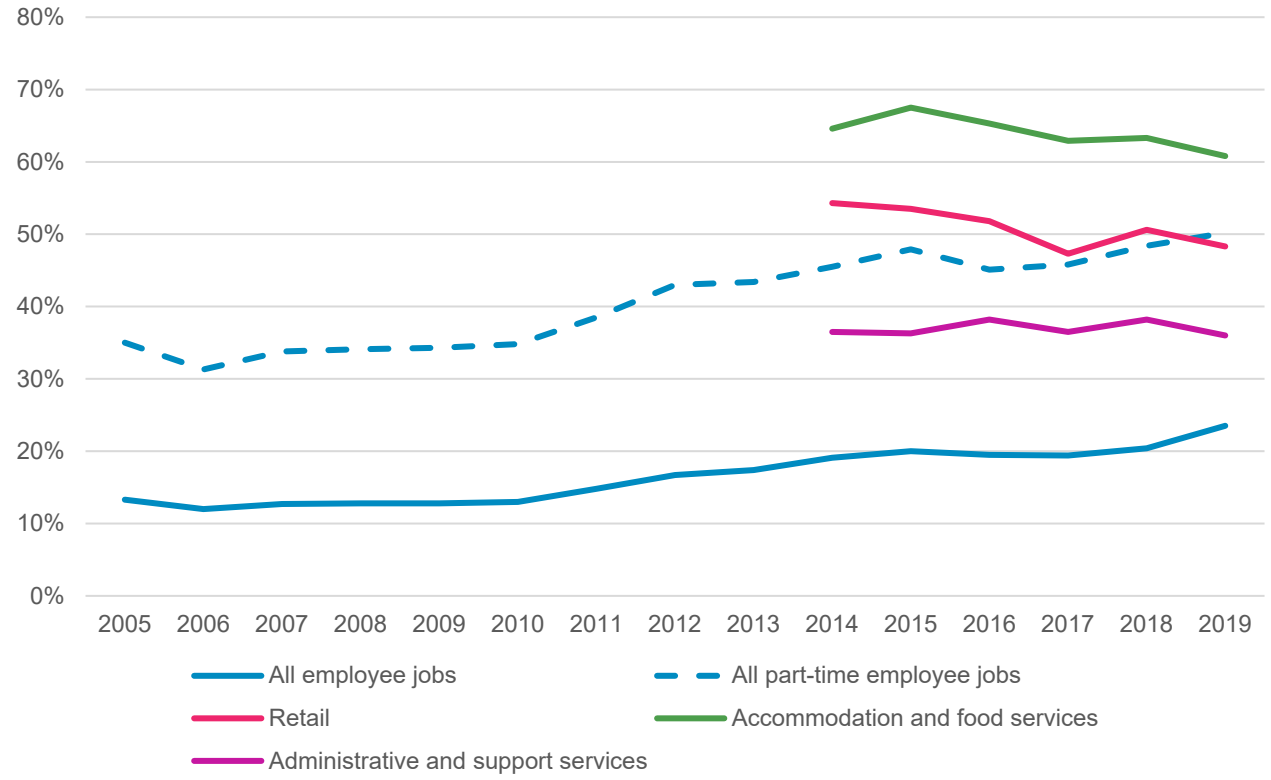


Source: ONS ASHE

The London Living Wage (LLW) is a wage set independently of Government, based on an assessment of living costs, and participation in the scheme by employers is voluntary. 24% of employee jobs in London in 2019 were low paid by this measure, rising to 50% for part-time jobs. The proportion of low paid Retail goods jobs is a little under 50%, while that for Accommodation and food service jobs in the leisure sector is higher again at a little over 60%, (Figure 5.2). The trend for these sectors has been gently downwards.

Figure 5.2: Proportion of London employee jobs below the LLW, all and part-time, retail goods and other sectors, 2005-19

Jobs in the leisure sector, of Accommodation and food services, are also low paid



Source: ONS ASHE

The degree to which increases in the minimum wage impact on costs for individual businesses will depend both on their wage structure, and the proportion of wages in overall costs. Annual increases in the national minimum wage, and for over 25s the National Living Wage, have typically been below 5% since 2007[70].

One of the ways to fill low pay jobs in the retail sector has been to recruit people from overseas. A challenge for the retail goods sector is the end of the transition period for EU exit at the end of 2020, and the introduction of a new immigration regime. The Government is clear that there will not be a general route for employers to recruit at or near the minimum wage[71]. Annual earnings will need to be at least £20,480 which is around a third higher than the minimum wage for full-time work. Other things equal the effect of this change is likely to put upward pressure on wages to fill vacancies.

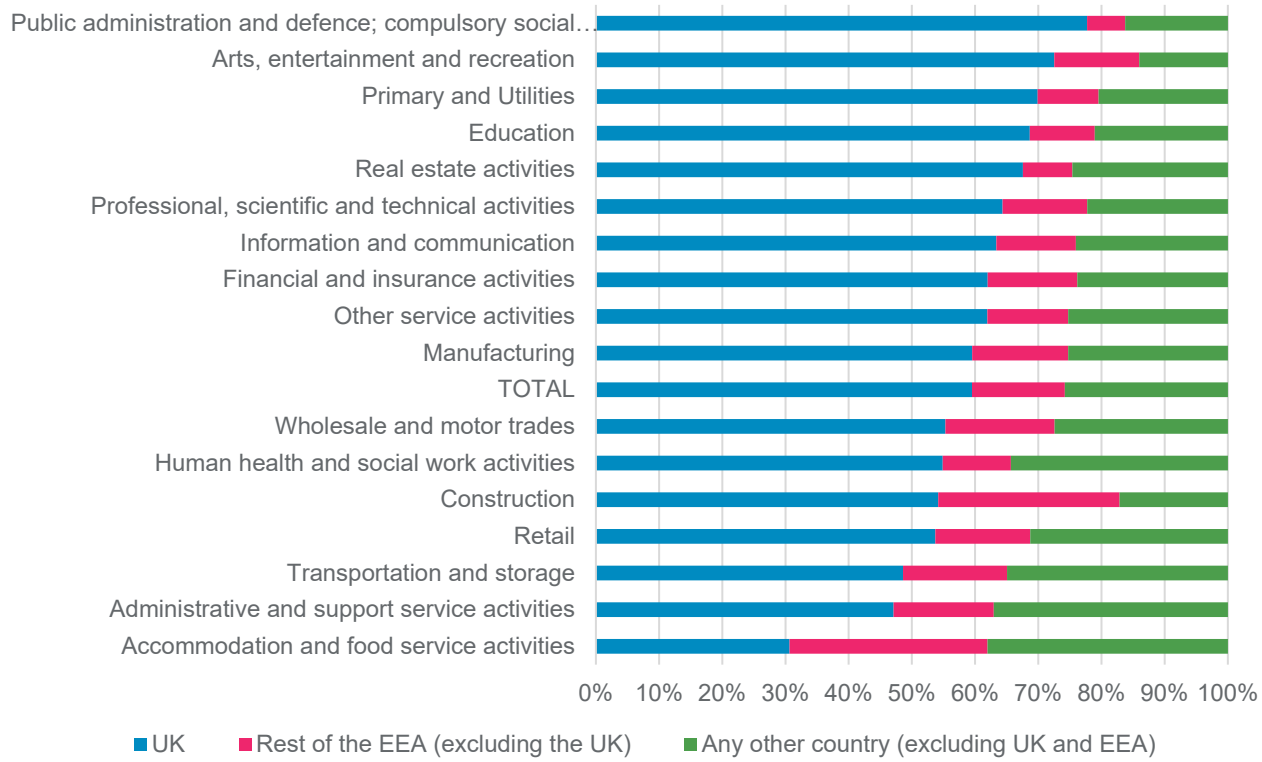
The retail goods sector has one of the lowest proportion of jobs held by UK nationals at 54%. 15% of jobs are held by people from the European Economic Area, and 26% by people from other countries, (Figure 5.3). Accommodation and food services has the lowest proportion of jobs held by UK nationals at 31%.

[70] See National Minimum Wage and National Living Wage rates - GOV.UK and 20 years of the National Minimum Wage - GOV.UK. For the over 25s the 50p increase in April 2016 was 7.5%, and the 51p increase in April 2020 was 6.2%. For 18-20 year olds the 30p increase in April 2018 was 5.4%

[71] See New immigration system: what you need to know - GOV.UK

Figure 5.3: Percentage of jobs by industry and by country/area of birth, London, 2019

46% of jobs in the retail goods sector are held by people born outside the UK



Source: ONS Annual Population Survey

5.3 Business rates revaluation

5.3.1 The business rates system

The 2017 revaluation set large increases in rateable values for properties across much of London. This was to re-assert the purpose of the business rates system to be revenue neutral and set for each business a level of rates according to its economic rents. There was a need for a review as rates had moved out-of-line with rents as the economic circumstances of places had changed. It considered changes in rates for the period April 2008 to April 2015. Chapter 3 provides some context on the changes across sectors for London and England and Wales. This section seeks to assess the theoretical effects of how the system works.

The timing of the 2017 business rates revaluation may have been unfortunate for retail businesses. Since 2015, some of these businesses have been moving to more marginal sites suggesting that competition from other quarters has made business rates unaffordable.

There are several stages to the calculation of collectible rates for a property[72]:

- The VOA estimates a rateable value for all properties across England and Wales
- The amount of business rates due for each property is calculated by applying a multiplier:
  - This is set each year to ensure that rates collection remains revenue neutral after inflation. The multipliers fell in 2017/18:
    - From 49.7p to 47.9p in the pound for larger businesses

[72] This paragraph draws from Business rates: maximising the growth incentive across the country | Centre for Cities, National non-domestic rates collected by councils in England: forecast for 2018 to 2019 - GOV.UK and Business rates relief: Transitional relief - GOV.UK

        - From 48.4p to 46.6p in the pound for small businesses
    - The effect of this change was to reduce collectible rates for businesses in many London local authorities despite an increase in rateable values

- There is a range of discounts, exemptions and reliefs to support specific businesses such as the small business rates relief (which can offer discounts of up to 100% on business rates)
    - Retail businesses might benefit from one of retail relief, charity relief, or small business rates relief
    - Small business rates relief has this structure:
        - Below £12,000 – 100% rate relief
        - Between £12,001 and £15,000 – relief is on a sliding scale from 100% to zero
        - Over £15,000 – no relief granted
- At rates revaluation the Government also put in place a transitional scheme that protected small and medium business ratepayers from significant step changes in bills, by phasing in increases over a number of years
    - This scheme is to the benefit of London as it phases in increases. Elsewhere it is a detriment because it delays the reduction in rates that would reduce the financial pressure on retail businesses

As the supply of land is fairly fixed from a theoretical perspective some, if not all, of an increase in rates where this occurs should be offset by lower rents[73]. A national 2015 study by Regeneris Consulting[74] of data for 1990 to 2010 concluded that:

- There is a lagged relationship between changes in rates and the feed through to property rentals. The effect is largely passed on from occupiers to landlords after three to four years (with around 75% passed on after three years). The relationship is clearest in the retail sector but can also be seen with offices.
- The relationship between business rates and rents is stronger in regional markets outside London. This may be because leases tend to be longer for prime London property, or it could be down to the relative balance of power between landlords and occupiers in different markets.

The analysis of this paper uses data up to 2019/20 or two years after the 2017 revaluation. The effects of the revaluation may not yet be fully known. As the retail sector is diverse, there may be a range of rental agreements in place with varying degrees of flexibility to take account of changes in financial circumstance. While most retailers are small, larger companies tend to have longer term shop leases with automatic uprating[75] – inflexibility in leasing arrangements is one explanation why companies seek Company Voluntary Arrangements (CVAs) with their creditors to re-negotiate leases. In consequence, some retailers are arguing for turnover leases to share the risks with landlords of volatility in sales, and some large landlords have written down property values[76].

As will be shown later much of London faced large increases in business rates in 2017, and notably so for central London. For some of London, but not the CAZ and Kensington and Chelsea which were exempt, the introduction of permitted development rights (PDR) in 2013 may have impacted on rents and so rates. PDR allowed offices to be converted to residential use without the need for planning permission. As there is

[73] See Submission to Treasury Committee inquiry: The impact of business rates on business - Institute For Fiscal Studies - IFS for a more thorough discussion of this point

[74] Regeneris Consulting (2015), Business Rates: who pays and why it matters?

[75] For a discussion see Reforming business rates: Fixing a broken system | Centre for Cities

[76] For an overview of developments pre-COVID see Mike Ashley demands turnover rents across Sports Direct empire - Retail Gazette

substitutability in property use this might also impact on valuations in the retail sector. Research has found a 50% increase in the price of offices eligible for this conversion in London[77]. The pressure for additional housing space is greater than the pressure for additional office space.

A change in business rates has implications for the relative importance of shop and internet sales. Where an internet company has relatively less property or can locate it in relatively cheaper areas then it gains a competitive advantage. This can become an unfair advantage where it can transfer the value of sales to overseas where it faces lower tax regimes. This might be of particular importance for comparison shops in central London.

There is a complex system of supports, reliefs and exemptions associated with business rates. Appendix G considers their effects as they apply to the retail sector in London, and the part which is a small business or a charity.

From 2013/14 the Government allowed local authorities to retain 50% of business rates. This provides local authorities with a financial incentive to support business development. The Centre for Cities has concluded that the infrequency of rate reviews provides local authorities with an incentive to add floorspace rather than upgrade existing floorspace[78]. It provides national evidence that this has happened. The effect of this might be to support developments away from town centres and high streets. In London, in practice, as industrial land has become available this might mean that business development would be favoured over housing development. It is not known if this has been a factor in the development of shopping centres and retail parks. Counterarguments are the time there is between granting permission and opening, and the risk of a loss of rates receipts in prime areas where businesses close due to the competition.

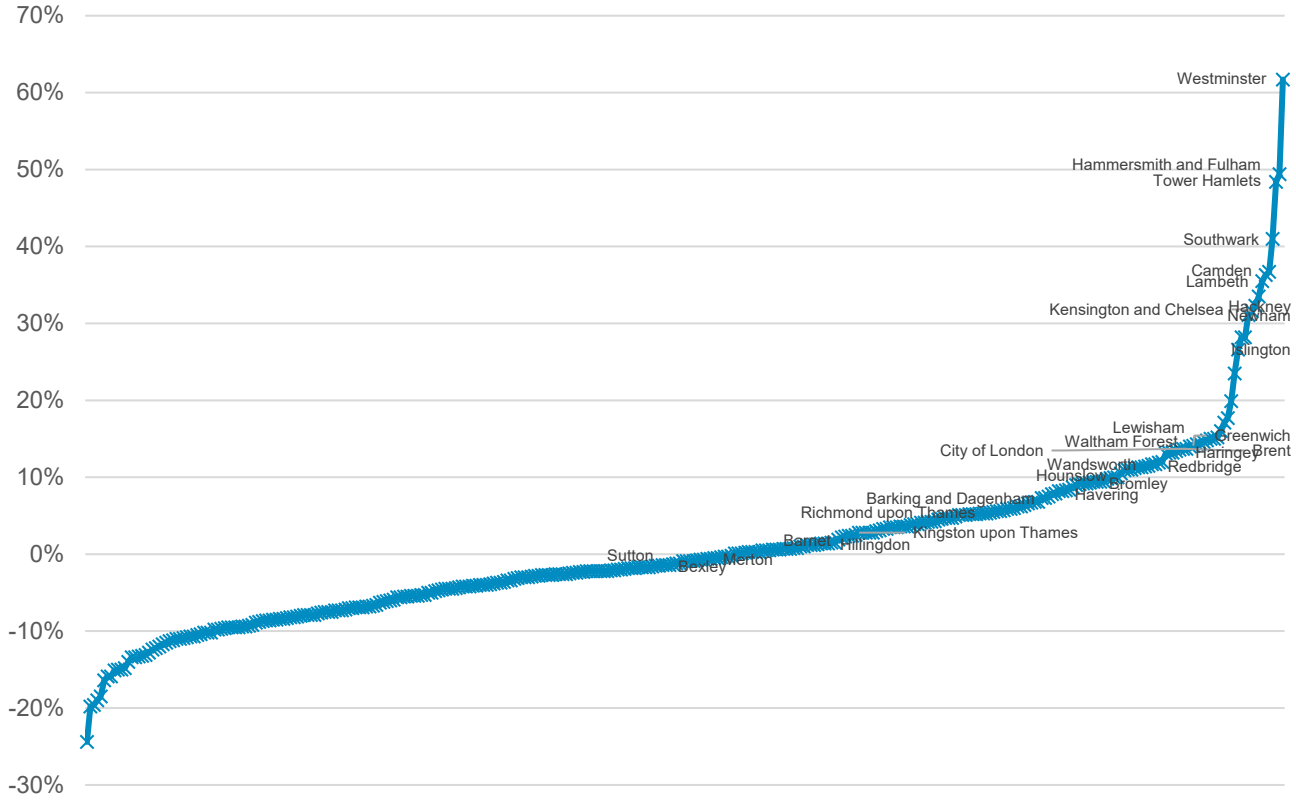
5.3.2 Changes in rateable value and collectible rates

One effect of the 2017 rates revaluation was to increase retail rateable values across London. The change in rateable value has been set for individual properties. As Figure 5.4 shows there were many parts of England and Wales which benefited from rate reductions, as did three London local authorities: Bexley, Merton, and Sutton. Nine, though, of the 11 local authorities with the largest increases were in London. The increase for Westminster was 62%, and there were 10 local authorities in London with increases over 25%.

[77] See Cheshire P and Kaimakamis (2020), Offices scarce but housing scarcer: estimating the premium for London office conversion
[78] See Business rates: maximising the growth incentive across the country | Centre for Cities

Figure 5.4: Changes in retail rateable value by London local authority at the 2017 rates revaluation

Across London local authorities there were increases in retail rateable values at the 2017 rates revaluation

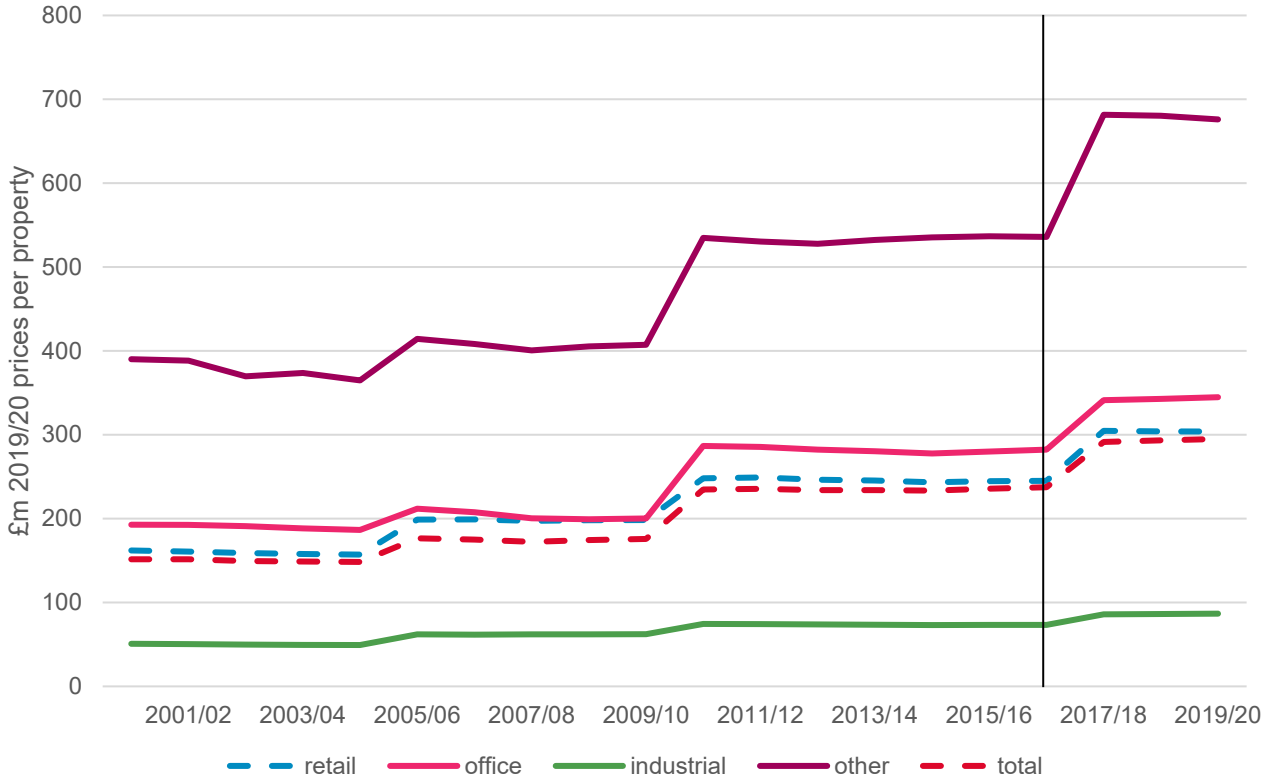


Source: VOA

The proportionate change (after inflation) in retail rateable values at a London level is comparable across revaluations. The change was 27% in 2005/6, 25% in 2010/11, and 24% in 2017/18, (Figure 5.5). The difference this time is the pressure retail shops face from other sources. As already noted, the biggest increases in 2017/18 were in the retail sector, while in 2010/11 there were bigger increases in the office sector at 43%.

Figure 5.5: Changes in rateable value per metre squared, retail and other sectors, London, 2000/01 to 2019/20, 2019/20 prices

The proportionate increase in rateable values for the retail sector from the 2017/18 revaluation is comparable in real terms with previous revaluations

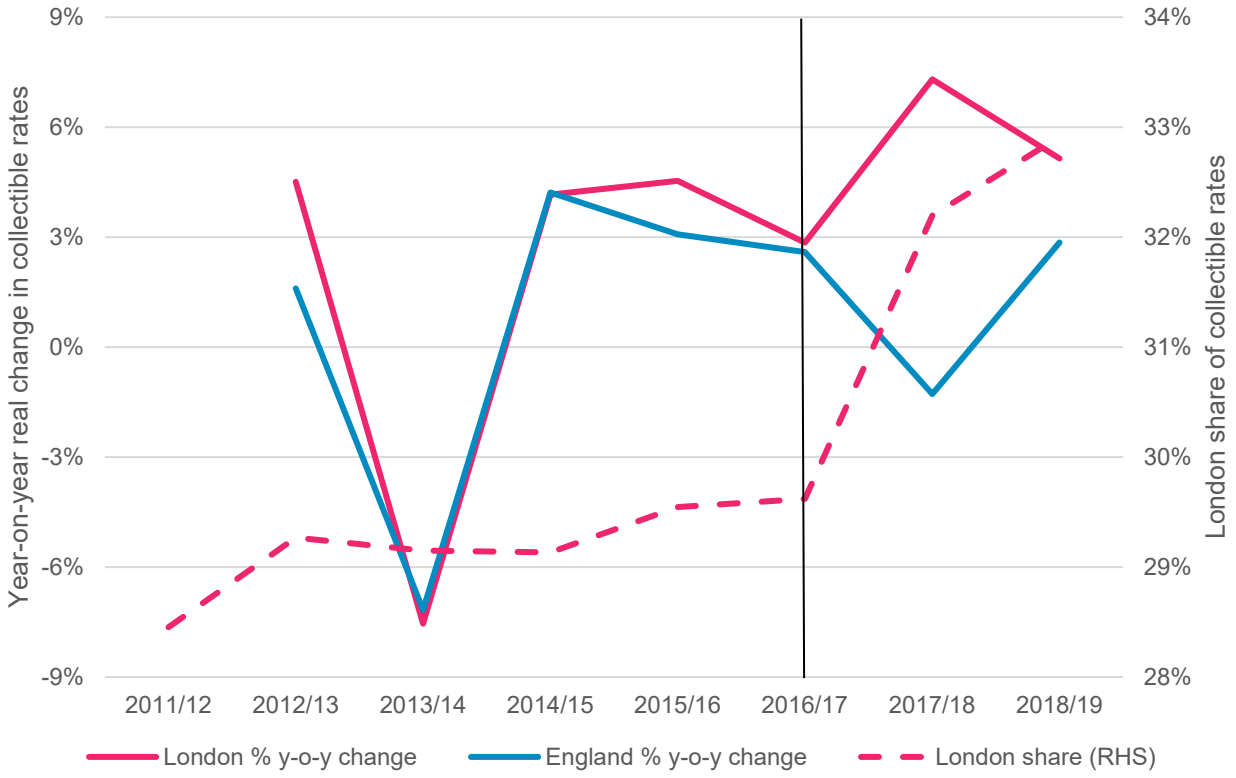


Source: VOA
Note: changes in rateable values are in 2019/20 prices using the GDP deflator

Despite changes to the multiplier and transitional protection London's collectible share of all business rates in England increased in 2017/18 from 28.4% to 32.1% continuing the earlier trend, (Figure 5.6). Prior to the implementation of revaluation year-on-year changes in business rates in London and England were moving in step. (Data on collectible rates is only available for all businesses, and not individual sectors like the retail sector.)

Figure 5.6: London's share of collectible rates, and year-on-year change in collectible rates after inflation, London and England, 2011/12 to 2018/19

The share of business rates paid by London businesses increased immediately after implementation of the 2017 rates revaluation

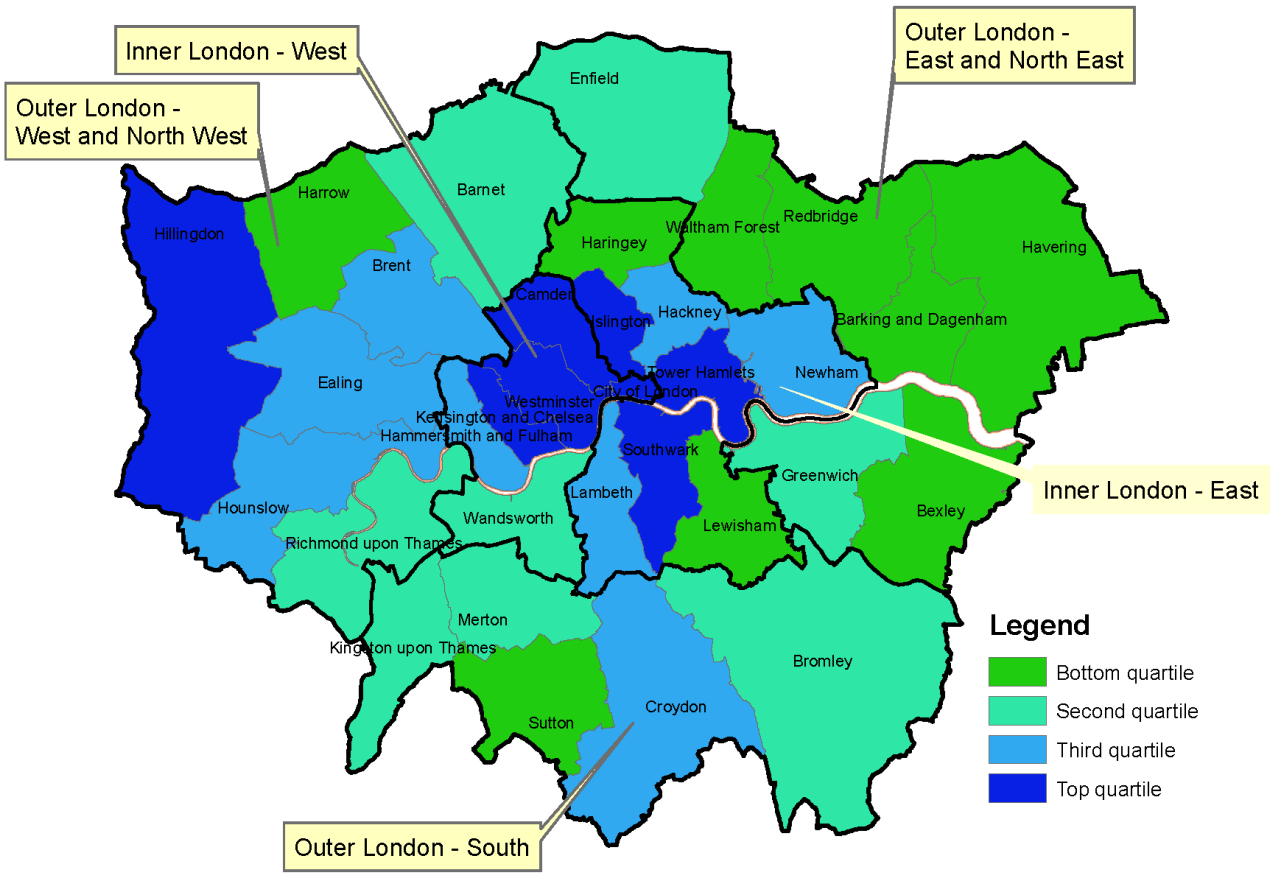


Source: MHCLG NNDR3
Note: changes in collectible rates are in 2018/19 prices using the GDP deflator

It is not a surprise that business rates are highest in local authorities in the centre of London, and around Heathrow Airport. They are lowest in the east of London, (Map 5.1). (There is a similar picture for rateable values for the retail sector.)

Map 5.1: Collectible business rates by local authority, 2018/19

Business rates are highest in the centre of London and around the airport

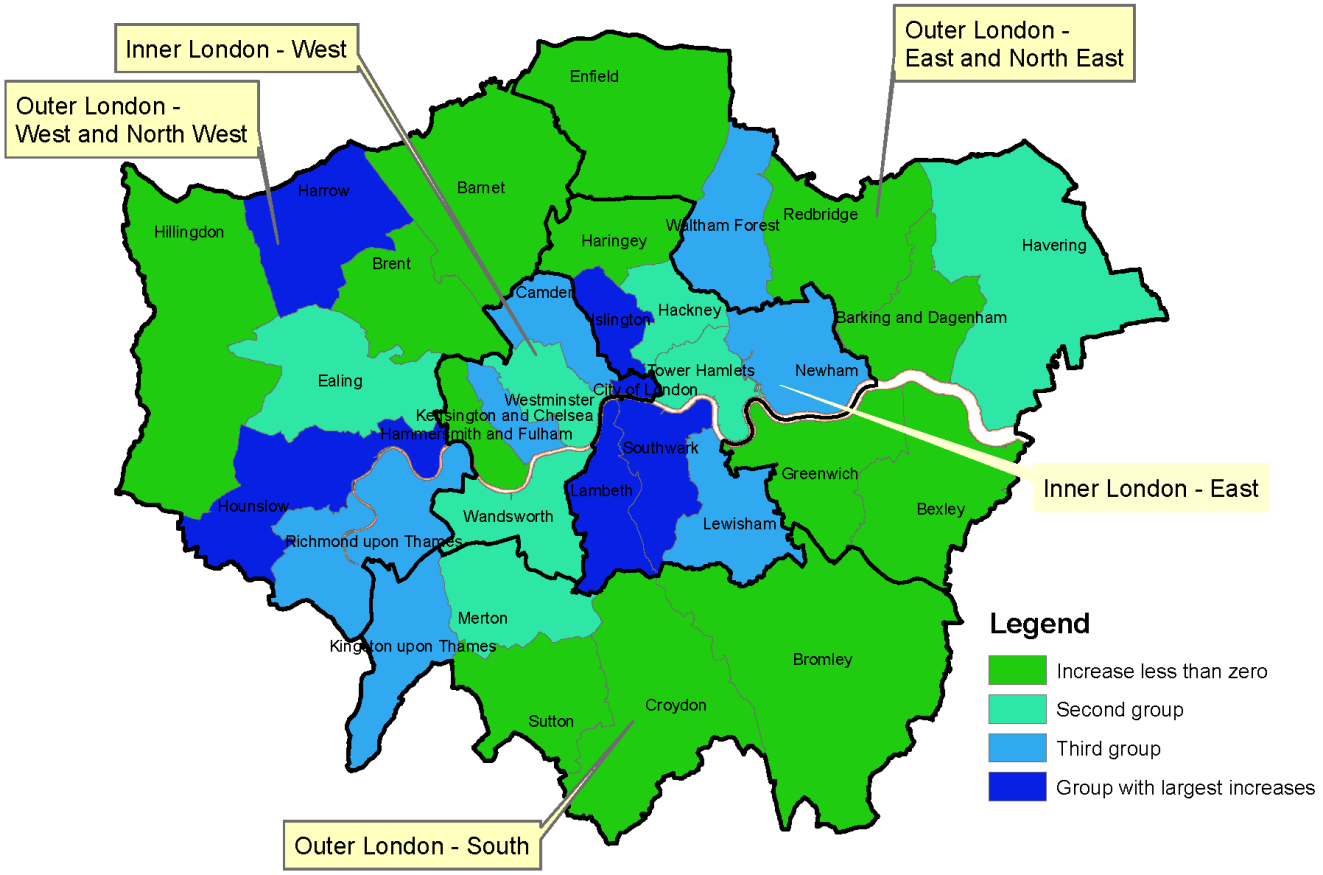


Source: MHCLG NNDR3

More interestingly, business rates have fallen in 13 local authorities between 2016/17 and 2018/19, (Map 5.2). Rates will go up as transitional protection unwinds, and with changes in the multiplier.

Map 5.2: Change in collectible business rates by local authority, 2016/17 to 2018/19

Collectible business rates fell in 13 local authorities between 2016/17 and 2018/19



Source: MHCLG NNDR3
Note: changes in collectible rates are in 2018/19 prices using the GDP deflator

There are a number of reliefs, exemptions, and discounts in the business rate system. Retail businesses might benefit from one of retail relief, charity relief, or small business rates relief. Appendix G considers how this part of the business rates system is working.

In 2019/20 around two-thirds of businesses in London are small, that is have a rateable value of less than £51,000, and around three-quarters of businesses in England are small. The marked effects of the 2017 revaluation for small businesses have been to:

- Increase London's share of the yield from the small business rate supplement from 29% in 2016/17 to 36% in 2017/18;
  - This was worth £226m to London in 2018/19 and £631m to England.
- Increase London's share of businesses benefiting from the supplement from 17% in 2016/17 to 20% in 2017/18;
- Reduce the proportion of England's small businesses in London receiving a discount from 23% in 2016/17 to 20% in 2017/18.

Retail relief was worth £108m to the capital, out of £357m for England in 2019/20, prior to its extension due to the impact of COVID-19. Before this, it was last available in 2015/16.

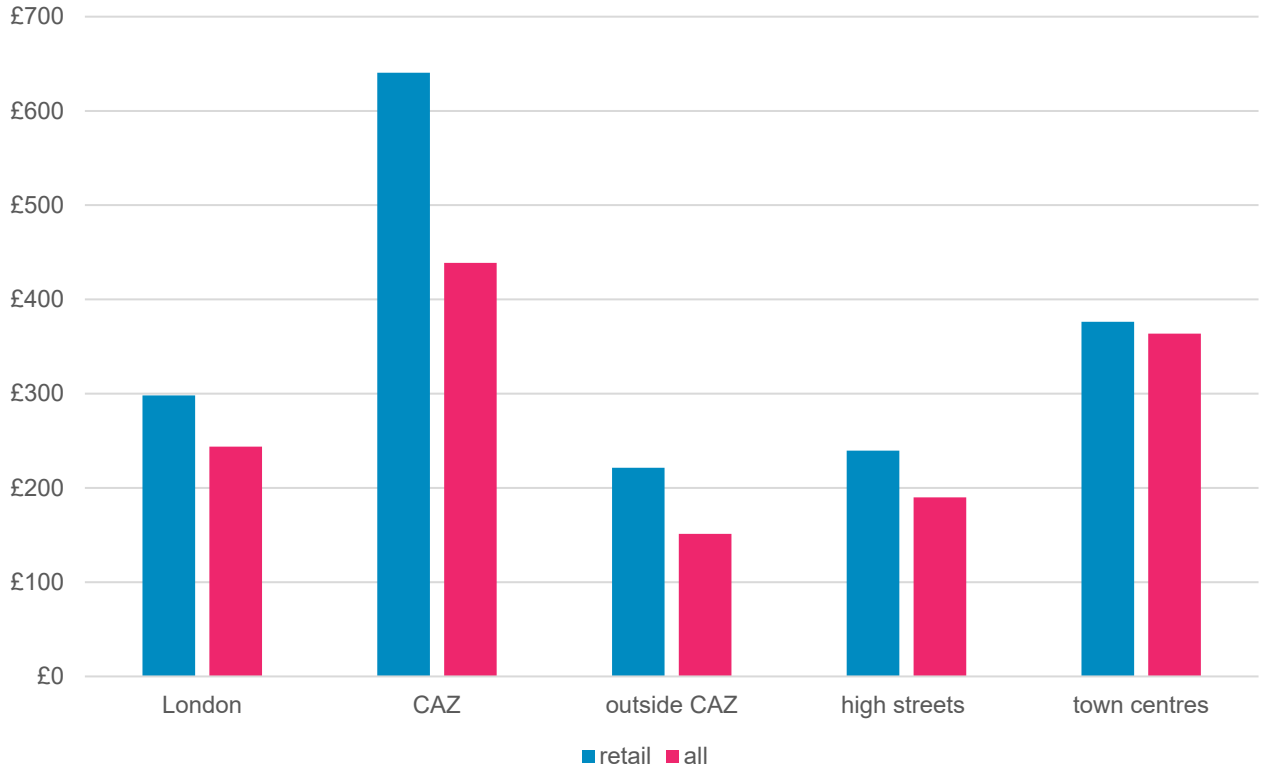
In 2019/20, 13,400 London charities had entitlement to the associated relief, which is 14% of the 92,900 charities in England. In comparison, there were 1,128 charity shops in 2019. So, the relief extends far beyond the number of charity shops in London.

5.3.3 Effect on retail properties in the main shopping areas of 2017 rates revaluation[79]

Across London's main shopping areas business rates are higher for retail properties than all properties. Both the rateable value, and the differential in proportionate terms is highest in the CAZ. In 2019/20, the rateable value per metre squared was £641 for retail properties, 46% higher than the £439 for all properties. Rateable values on average are higher in town centres than London, while the differential is 3%. The differential for high streets is 26%, and these are the shopping areas with the lowest rateable values, (Figure 5.7).

Figure 5.7: Average business rates per metre squared by main shopping area, retail and all businesses, London 2019/20

Retail business rates are higher than for other properties across London's main shopping areas



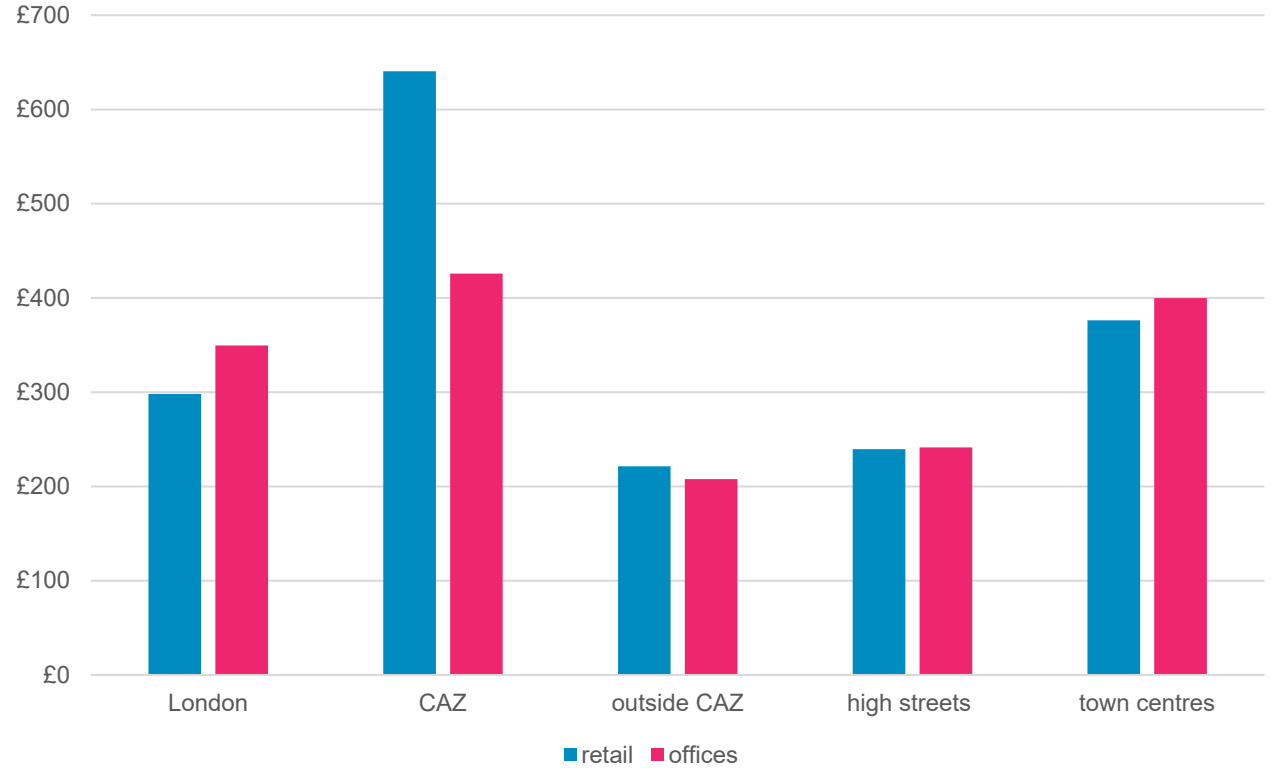
Source: VOA LSOA data and GLA Economics analysis

In contrast, across London retail rateable values are lower on average than office rateable values. They are broadly equal outside the CAZ, and for high streets and town centres. Within the CAZ, though, retail rateable values are 50% higher than for offices, (Figure 5.8).

[79] The area of the analysis in this section for CAZ, town centres, and high streets is the LSOAs within which these main shopping areas lie.

Figure 5.8: Average business rates per metre squared by main shopping area, retail businesses and offices, London 2019/20

Retail business rates are higher than for offices in the CAZ

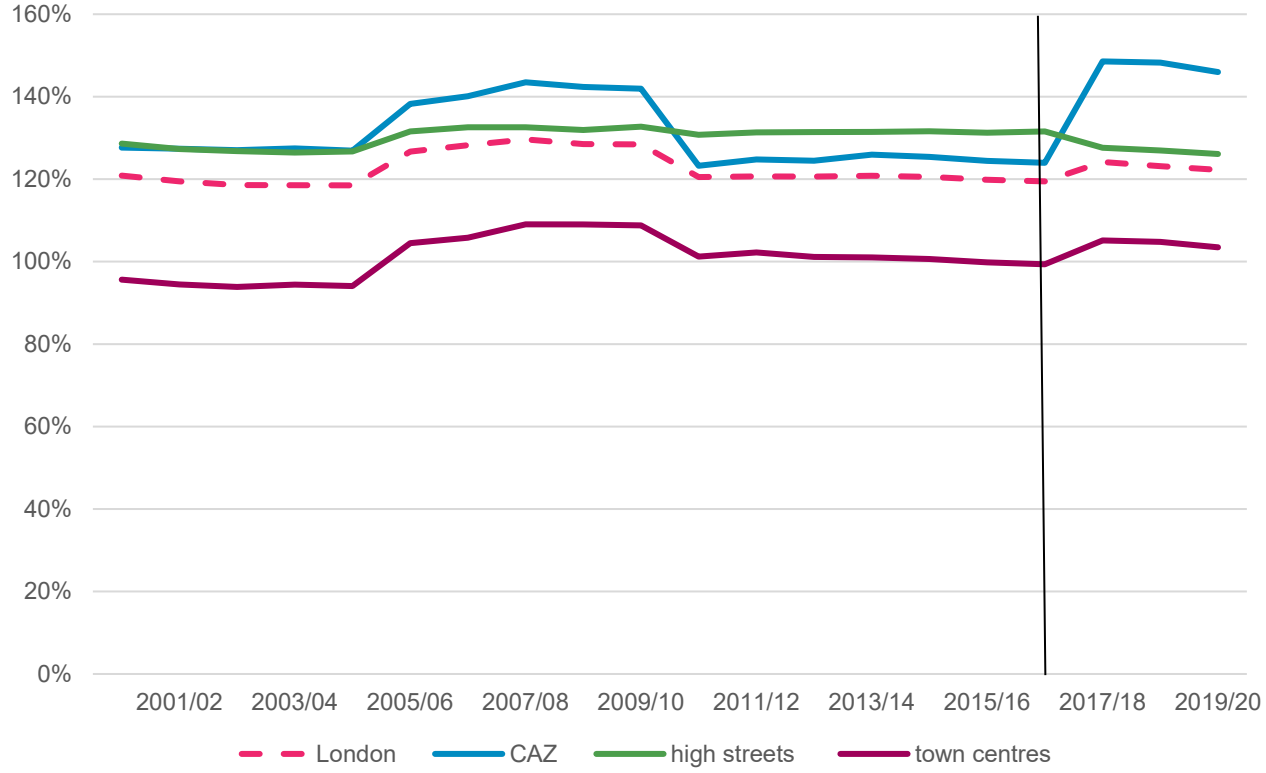


Source: VOA LSOA data and GLA Economics analysis

At a rates revaluation there can be a noticeable difference in the average change in rateable values for retail and all businesses. This is apparent, particularly for the CAZ, in Figure 5.9 which provide a time series for the ratio. It has already been noted that retail businesses in Westminster received a 62% uprating in business rates at the 2017 business rates revaluation. The figure indicates that for London, town centres and the CAZ retail rateable values rose faster than for all business. For the CAZ the differential rose from 24% to 49%. There was a slight dip in the ratio for high streets.

Figure 5.9: Ratio of business rateable values for retail and all businesses by main shopping area, London 2000/01-2019/20

For London, and particularly the CAZ, the increase in business rates at the 2017 revaluation was higher for retail businesses than all businesses



Source: VOA LSOA data and GLA Economics analysis

Retail business rateable values also rose markedly relative to office rateable values as part of the 2017 business rates revaluation. This is despite locations in central London becoming more valuable for office space as reported in Chapter 3.

There is a question why there was such a disproportionately large rise in retail rates in central London. One possible answer is that it is associated with the increase in productivity in the area if this was associated with the development of retail properties to remain viable. Business rates are a tax on property, rather than a tax on land, which can discourage the development and use of property by landlords and tenants[80].

5.3.4 Impact on the retail sector of the 2017 rates revaluation

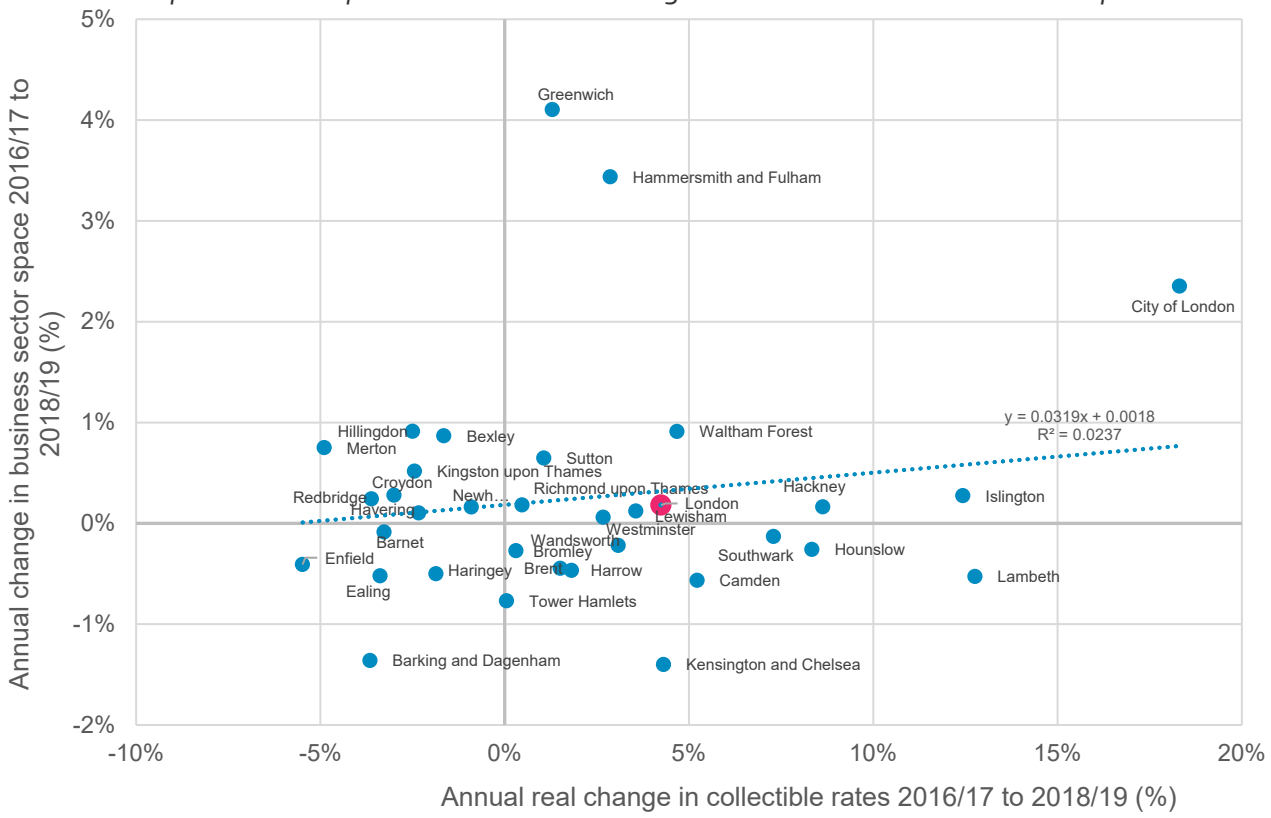
At a local authority level there is no simple relationship between the 2017 rates revaluation and the subsequent change in space between 2016/17 and 2018/19:

- Figure 5.10 shows the change in business sector space and collectible rates (after inflation) (R^2 = 0.02)
- Figure 5.11 shows the change in retail rateable value and retail space (R^2 = 0.00)

[80] See IFS, Business Rates, Green Budget 2014

Figure 5.10: Annual change in business sector space and in collectible rates (after inflation) by London local authority, 2016/17 to 2018/19

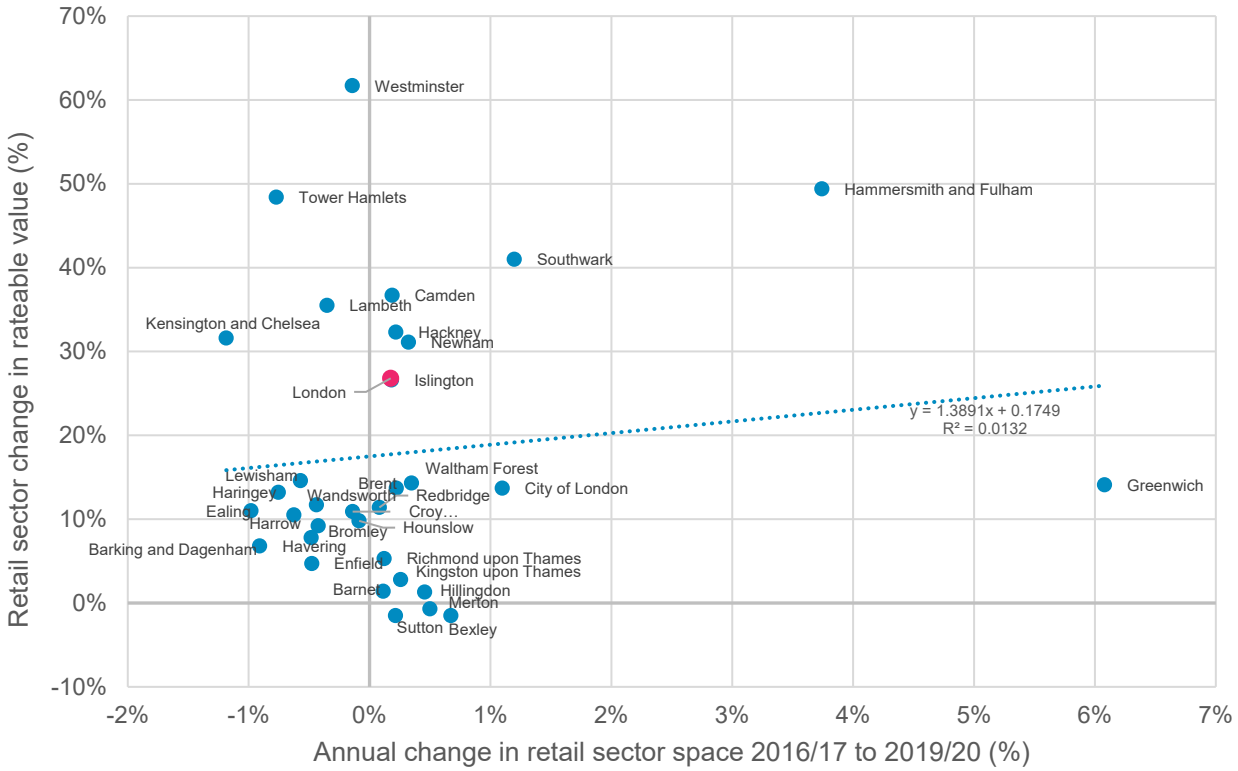
There is no simple relationship between the 2017 change in rateable value and business space in London.



Source: VOA and MHCLG NNDR3
Note: changes in collectible rates are in 2018/19 prices using the GDP deflator

Figure 5.11: Annual change in retail sector space and 2017 change in rateable value by London local authority, 2016/17 to 2019/20

There is no simple relationship between the change in rateable value and retail space in London



Source: VOA

Analysis of changes in property numbers, floorspace and change in rateable values has been conducted for LSOAs, town centres, and high streets[81] for both retail and all businesses. Again, no evidence of a relationship has been found.

The increase in business rates will impact on the retail sector even if there is no apparent relationship with changes in floor space. There are a number of reasons why a relationship has not been found:

- The use of properties or floorspace is imperfect because it includes empty properties, and there is evidence from shops data that this may be becoming more important;
- Averages may also disguise changes in the distribution of collectible rates between smaller and larger businesses;
- Retailers may have been successful in negotiating rent reductions;
- The impact of the rate revaluation may not have yet fully occurred;
- It has not been possible with the data available to isolate other factors which bear on retail space such as the expansion of office space in central London, increasing use of the internet for retail purchases, and the development of the leisure sector.

[81] The analysis for town centres and high streets is for LSOAs within which those shopping areas lie

Conclusion – Retail trends and COVID-19

This paper provides a baseline for retail trends up to 2019, and prior to the onset of COVID-19. This conclusion brings together some of the main trends identified, and how the outbreak of the virus might have impacted on them.

The retail sector has been successful

Overall, the retail sector has been successful with growth in expenditure, output, businesses, shops, and productivity over the last five years and longer according to the available data. Retail and leisure vacancy rates for all types of main shopping and other area remain below the rate for Britain, and for London it is 3 percentage points lower. However, since 2015 there has been considerable and increasing pressure on parts of the sector with a major shift from physical to virtual retailing, and other pressures on the land traditionally occupied by the retail sector in the CAZ, town centres and high streets. This has not been assisted by increases in the minimum wage, and the 2017 business rates revaluation. Comparatively, the physical leisure sector seems to be doing better, and benefiting from a shift in consumer preferences, despite facing similar pressures on the availability of land and costs. With the outbreak of COVID-19 some of these trends have been continuing, others have not.

Demand for comparison and leisure shops is likely to fall. E-commerce stands to benefit, and owners of physical stores are well placed to switch to e-commerce

First, a macroeconomic consequence of the outcome of the virus, and not considered in the rest of the paper, is that unemployment has risen, and spending power has fallen. Because of uncertainty households may also be more careful in their spending. This is likely to impact most on non-essential retail and leisure spending with adverse consequences for the viability of shops. It is comparison shops and leisure shops which might be affected the most.

Despite internet coverage reaching over 90% of households by 2019 there had been no slowdown in internet spending. It had reached by this time 19% of retail goods sales in the UK. In response owners of physical shops have developed a major internet presence. So, along with internet-only businesses, they are able to benefit from the switch to online purchases with the restrictions on physical movement. This puts at jeopardy comparison shops and risks an acceleration of an existing gradual trend for their closure. E-commerce may also benefit if some expected expenditure on services, including leisure services, switches to online goods purchases.

There may be a further weakening of the relationship between the location of shops and where people work

There may also be a further weakening of the historic relationship between the location of shops and where people work. People staying at home means there is less commuting, and this has been most marked for the CAZ. The loss of tourists, and particularly international tourists, will also have had a noticeable adverse effect, and quite possibly disproportionately on the International town centres. This has put at risk all types of shop in the CAZ simply because there are fewer people in the area each day. This, and the likelihood that people will work more from home in the future, presents an opportunity for town centres and high streets

nearer to where people live. An increased tendency for home working, even when the virus is less prevalent, may support any such tendency.

At a broad level while the virus is still prevalent and there is social distancing, the tendency for reduced physical retailing is less likely to be offset by more engagement in leisure activities. This may present an additional threat to town centres and high streets.

There may already be an oversupply of retail units in some parts of London, and prior to the onset of the virus the rate of opening of off-street shopping developments had been accelerating. This will make it harder for town centres and high streets to manage the challenge of further shop closures.

Shopping and leisure activities were the most important reason for people to come to town centres and high streets. How well these places will withstand the ongoing challenges to these activities is not clear

Prior to COVID-19 shopping and leisure activities were the most important reasons for people to come to town centres and high streets. Some have been successful, and some less so. How well these places will withstand the challenges of the pandemic is not clear. Some diversification through the opening of off-street shopping developments may in some places have been at the expense of other shops. The loss of comparison stores may have had knock-on effects for other stores, especially in high streets. There needs to be robust processes for managing these estates.

It is clear from the available evidence that high streets are becoming increasingly important as a place where people live, and where there is work. By inference this is likely to be the case for town centres as well. Retail employment has been becoming less important to high streets in part because leisure activities have been expanding. Diversification may enable town centres and high streets to weather a decline in the physical retail sector. Some may also face a decline in employment in leisure activities, which has been an important means to diversify, and may not now be as straightforward.

The incentives to invest in the street environment may decline with a further downturn in comparison shops and a decline in leisure activities

Some town centres and high streets are successful, and other less so. The reasons for this are likely to be complex and have not been explained by the analysis in this paper. One factor which seems to be of relevance is the quality of the street environment. The incentives to invest may diminish if there is a further downturn in comparison shops, and leisure activities decline because people go out less with social distancing.

The continued implementation of the 2017 business rates revaluation will add to the costs of the retail sector

The timing of the 2017 business rates revaluation may have been unfortunate for retail businesses. This used rates assessments from 2015, and since then businesses have been moving to more marginal sites suggesting that competition from other quarters has made business rates unaffordable. Increases in rateable values for retail properties in the CAZ were markedly higher than for office or other properties – these increases continue to be phased into collectible rates, although there has been rates relief in 2020/21. A decline in the demand for office space from more home working may further bring rate valuations out-of-line with market conditions. It is not clear to what extent the retail sector might benefit from landlords being willing to accommodate these pressures through lower rents.

The new immigration regime will make it harder for retail businesses to recruit overseas leading to pressures to increase wages and higher costs

Further significant increases in the minimum wage, if implemented, will also put additional financial pressures on retail businesses. The introduction of a new immigration regime with the departure of the UK from the EU will limit the scope for retail businesses to recruit workers from overseas. It will potentially apply upward pressure to wages to attract UK nationals, and so lead to higher costs.

Appendix A – Productivity trends – drivers and measures

A.1 Overview and main findings

This appendix supports the analysis of Chapter 2. It considers the reasonable expectation that the retail sector should be a significant beneficiary of innovations in information technology and concludes that this does not appear to have occurred. The appendix also draws out the implications of the less than ideal measurement of productivity due to data limitations in Chapter 2.

The retail sector has and will likely continue to be affected by new technology. There are various ways the sector might develop, and this will impact on the incentives to adopt technology. There is reason to believe that the full benefits of new technologies have not been reaped. This may also, in part, be down to demand conditions across the economy.

Automation has had offsetting tendencies on employment. Jobs in the retail sector are at particular risk of automation. The latest evidence is that jobs have reduced in some occupations particularly at risk, while they have increased in others. It is also not clear to what extent new jobs in internet-related activities will add to existing jobs or be at the expense of them.

The population of non-internet-only retail goods businesses has remained fairly stable over the period 2013-18 for both London and the UK. There has been a sharp rise in internet-only businesses since 2015 for both geographies, with a birth rate for London of over 50% in 2018. This suggests that technological change has not been an important enabler for market entry into the traditional retail goods sector, but it has created a significant competitive threat from internet-only businesses.

It is noteworthy that by the ideal measure of GVA/hour worked UK productivity in the retail goods sector only started rising from 2017 which suggests that the competitive threat from internet-only businesses has had an important effect in improving productivity growth.

There is no regional data of retail goods GVA/hour worked to support the analysis in Chapter 2. The spurt in retail goods productivity may have happened later than suggested using the GVA/job measure. The GVA/employee job measure may overstate productivity growth for retail goods and understate it for the whole economy.

There are sections on:

- Drivers of productivity trends;
- Impacts on employment;
- Impacts on business populations;
- The measurement of productivity.

A.2 Drivers of productivity trends

The available evidence both theoretical and empirical is that the development of information technology could lead to significant innovation both in how existing businesses are run, and in supporting the development of new types of business.

In 2011, the McKinsey Global Institute (MGI)[82] identified the US retail sector as one that might benefit markedly, and identified 16 ways this might happen, (Table A.1). The authors saw that the adoption of technology might both reduce and improve profitability:

- Easier price comparisons for consumers would put downward pressure on prices and profitability;
- Better understanding of customers, and more cost-effective operations could improve profitability.

Table A.1: Big data levers by function and method of effect

Function	Big data lever	Method
Marketing	Cross-selling	Use all data about a customer to increase average purchase size
	Location-based marketing	Target consumers near or in a store with offers on their phone
	In-store behaviour analysis	Improve store layout, product mix, and shelf positioning
	Customer micro-segmentation	Big data has enabled closer personalisation of product offers
	Sentiment analysis	Make use of social media data to respond to consumer choices
	Enhancing the multichannel customer experience	Integrate promotions and pricing seamlessly for shoppers
Merchandising	Assortment optimisation	Decide which products to carry
	Pricing optimisation	Improve pricing decisions
	Placement and design optimisation	Optimise the placement of goods and visual design
Operations	Performance transparency	Closer to real-time sales performance by store and employee
	Labour inputs optimisation	Improve scheduling to maintain service levels
Supply chain	Inventory management	Improve tracking of inventory, and stock replenishment
	Distribution and logistics optimisation	Route optimisation to improve fleet and distribution management
	Informing supplier negotiations	Use customer preferences and buying behaviours to inform negotiations
New business models	Price comparison services	Third parties offer near real-time price comparisons
	Web-based markets	Creation of online marketplaces

Source: MGI (2011), Big data: The next frontier for innovation, competition, and productivity

In 2016 MGI re-visited its earlier analysis[83]. This analysis concluded that the range of applications and opportunities has grown and will continue to expand. The question for companies now is how to integrate new capabilities into their operations and strategies. Of the five domains studied it found that the greatest advances have occurred in location-based services (such as mapping technology), and in US retail, where 30-40% of potential value had been captured by firms. Much of the value had gone to consumers, presumably through lower prices from price competition. The authors note that these are both domains

[82] See MGI (2011), Big data: The next frontier for innovation, competition, and productivity
[83] See The age of analytics: Competing in a data-driven world | McKinsey

with digital-only competitors. This may have enhanced the incentive to innovate. Barriers to advancement in US retail had been a lack of analytical talent, and siloed data within companies which meant that they did not have a single view of the customer.

Analysis by the Economic Statistics Centre of Excellence[84] (ESCoE) gives further reason to believe that the opportunities of new technology have not been fully exploited in the retail sector. The paper uses a growth accounting methodology to split UK labour productivity (output per hour) growth into its components of labour, capital, and total factor productivity (TFP). TFP measures the effects of technological change in capital, and in labour, such as management re-organisations. Changes in labour quality, such as improved skills, are reflected in the labour component. The paper finds for the retail goods sector:

- A 0.2 percentage points contribution to the UK economy-wide labour productivity gap in productivity growth rates between 1999-2007 and 2008-2010 (rising to over 0.2 percentage points for 2011-2015), the third largest of any division in the economy for the period to 2014;
- By factor of production the labour productivity gap is almost entirely explained by a fall in TFP, with a small increase from the composition of labour, and a decrease in capital deepening (the ratio of capital services to hours worked).

This suggests there has been a slowdown in productive innovation in the sector. The authors note that the decline in labour productivity in retail goods, "has contributed significantly to the UK productivity puzzle, in part because retail is a very large sector." Their overall conclusion, though, is that, "The detailed industry decomposition showed that UK labour productivity weakness is the outcome of very widespread productivity growth weakness, pointing to the importance of macroeconomic explanations for the puzzle."

There are other reasons to believe that available technology will not be fully implemented. The Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) developed three scenarios for the future of retail: the empathy economy; precision economy; and, big tech economy, (Table A.2). These are not exclusive, and it is likely that all three will happen to varying degrees. Notably, the empathy economy is about more authentic experiences, and environments which are more experiential. Customer service becomes more important, and there is a lesser role for new technology.

[84] See Below the Aggregate: A Sectoral Account of the UK Productivity Puzzle (ESCoE DP 2018-06) - ESCoE : ESCoE

Table A.2: Retail in 2035 – summary of consequences for different scenarios

Empathy Economy	Consumers seek out more authentic experiences
	High streets and physical stores adapt to become more experiential
	New jobs emerge in hi-touch customer service roles and new technologies augment human capabilities
	Frontline workers see their working conditions and job satisfaction improve
	Independent businesses increase market share
Precision Economy	Consumers demand greater personalisation and convenience
	High streets and physical stores are upgraded with IoT devices
	New jobs emerge in hi-touch customer service roles as data analytics augment human capabilities
	Gig economy algorithms are used to allocate shifts within and across retail businesses
	Increase in workplace monitoring but data is also used to improve job quality for frontline workers
Big Tech Economy	High street retailers face increased competition from technology companies
	High streets and physical stores adapt to support the needs of local communities
	Introduction of new technologies, including delivery drones and semi-automated trucks, results in a decline in manual jobs and widespread redundancies
	New jobs emerge in hi-tech and hi-touch roles but opportunities to transition are limited

Source: RSA (2019), Retail Therapy: towards a future of good work in retail[85]

In summary, the retail sector has and will likely continue to be affected by new technology. There are various ways the sector might develop, and this will be a factor which impacts on the incentives to adopt technology. This may, in part, be down to demand conditions across the economy.

A.3 Impacts on employment

One potential consequence of new technology is the risk to jobs through automation. The ONS has looked at this and summarised the literature[86]. Analysis typically estimates the "probability of computerisation" for different occupations. A refinement is to look at tasks within occupations. This reduces estimates of the proportions of jobs at high risk of automation because each job contains a bundle of tasks, not all of which will be susceptible to automation. For example, the jobs of retail assistants are highly automatable, yet there is social interaction in the vast majority of these jobs. The ONS findings reported in Figure A.1 adopt a version of the second methodology. Sales and customer service occupations, which represent a significant proportion of jobs in the retail sector, are at particular risk of automation, with all sub-occupations[87] facing a risk of at least 40% of automation, and some facing a risk of over 65%. Overall, 58% of jobs in the retail goods sector are at risk of automation, and only 14% of employees are in high-skill occupations.

[85] See Retail therapy: towards a future of good work in retail - RSA
[86] See The probability of automation in England - Office for National Statistics
[87] Defined by the 4-digit SOC code

Figure A.1: Occupations at risk of automation

Source: ONS (2017), 'Which occupations are at highest risk of being automated?'[88]

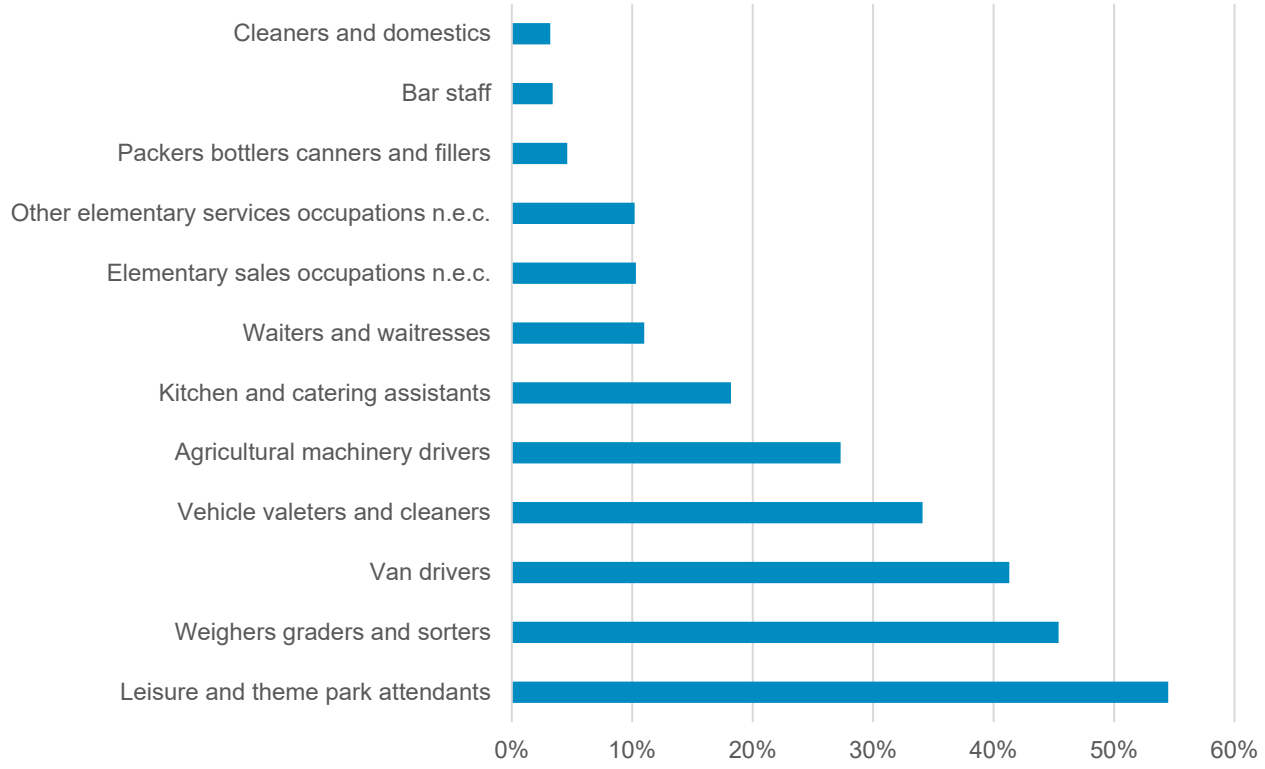
The picture of what has happened between 2011 and 2017 is quite mixed[89]:

- The proportion of jobs at a high risk of automation decreased slightly between 2011 and 2017, from 8.1% to 7.4%, while the proportion of jobs at low and medium risk of automation has risen;
- Employment in the economy increased – it is likely that some of the new jobs were relatively more highly skilled, and so at lesser risk of automation. Jobs supporting e-commerce are likely to fall in this category, although people working on activities such as web design, or software programming may not be employed by retail companies, and so would not be in the retail sector;
- Employment in some occupations at risk of automation increased – this includes occupations of relevance to this study, such as bar staff, waiters and waitresses, elementary sales staff, and kitchen and catering assistants, (Figure A.2);

[88] See Which occupations are at highest risk of being automated? - Office for National Statistics
[89] See Which occupations are at highest risk of being automated? - Office for National Statistics

- Employment in some occupations at risk of automation decreased – this includes occupations of relevance to this study, such as launderers, dry cleaners and pressers, and retail cashiers and check-out operators, (Figure A.3).

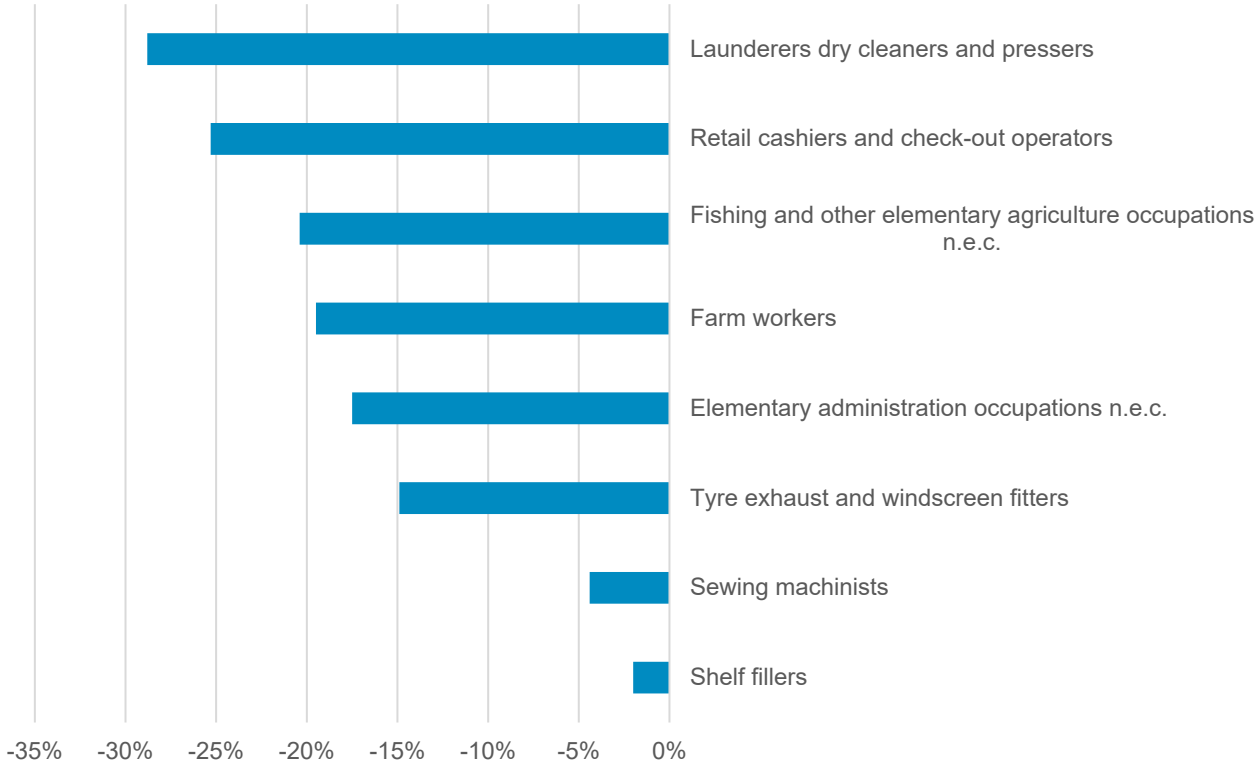
Figure A.2: Percentage increase in employment (main job) amongst the 20 occupations at highest risk of automation, England



Source: ONS (2017), 'The probability of automation in England: 2011 and 2017'[90]

[90] See The probability of automation in England - Office for National Statistics

Figure A.3: Percentage decrease in employment (main job) amongst the 20 occupations at highest risk of automation, England



Source: ONS (2017), 'The probability of automation in England: 2011 and 2017'[91]

So, automation has had offsetting tendencies on employment. Jobs in the retail sector are at particular risk of automation. The latest evidence is that jobs have reduced in some occupations particularly at risk, while they have increased in others. It is also not clear to what extent new jobs in internet-related activities will add to existing jobs or be at the expense of them.

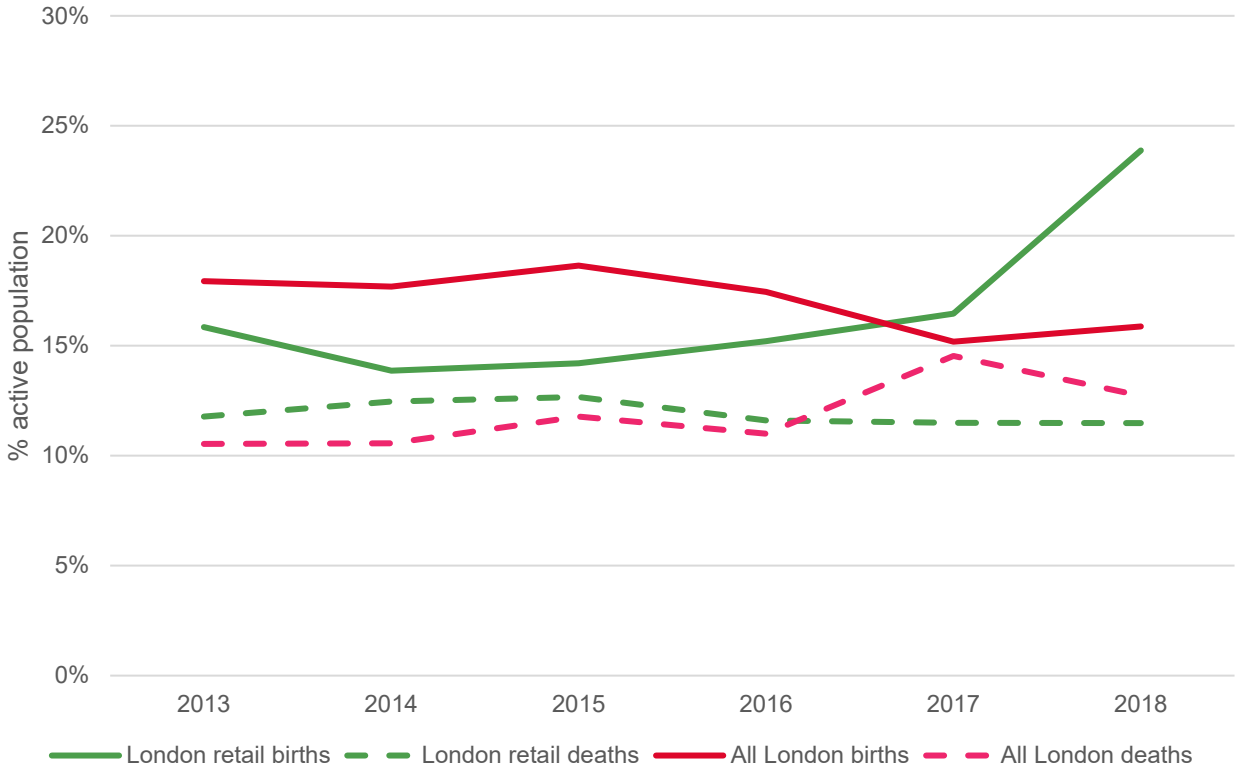
A.4 Impacts on business populations

The availability and adoption of new technology is likely to bring structural change in an industry. This section uses measures of business birth and death rates to consider this. It provides an indication of the extent to which the structure of an industry is stable, is growing, or is in decline. Rising birth rates indicate increasing new entry, and rising death rates show business exit. Rising birth rates, and an increase in the difference, the net birth rate, are measures of increased competitive pressures in an industry.

Competitive pressures from business entry and exit have been increasing in the retail goods sector in London and the rest of the UK, while declining for the wider economies. Since 2014 the birth rate of the retail goods sector in London has been rising, while the death rate has, if anything, declined slightly. For the broader London economy these trends, if anything, are the other way round, (Figure A.4). For the rest of the UK there are similar trends except the death rate of retail goods businesses rose markedly in 2018, (Figure A.5). Birth rates both for retail goods businesses and the wider economy have been somewhat higher in London, while death rates are only a little higher.

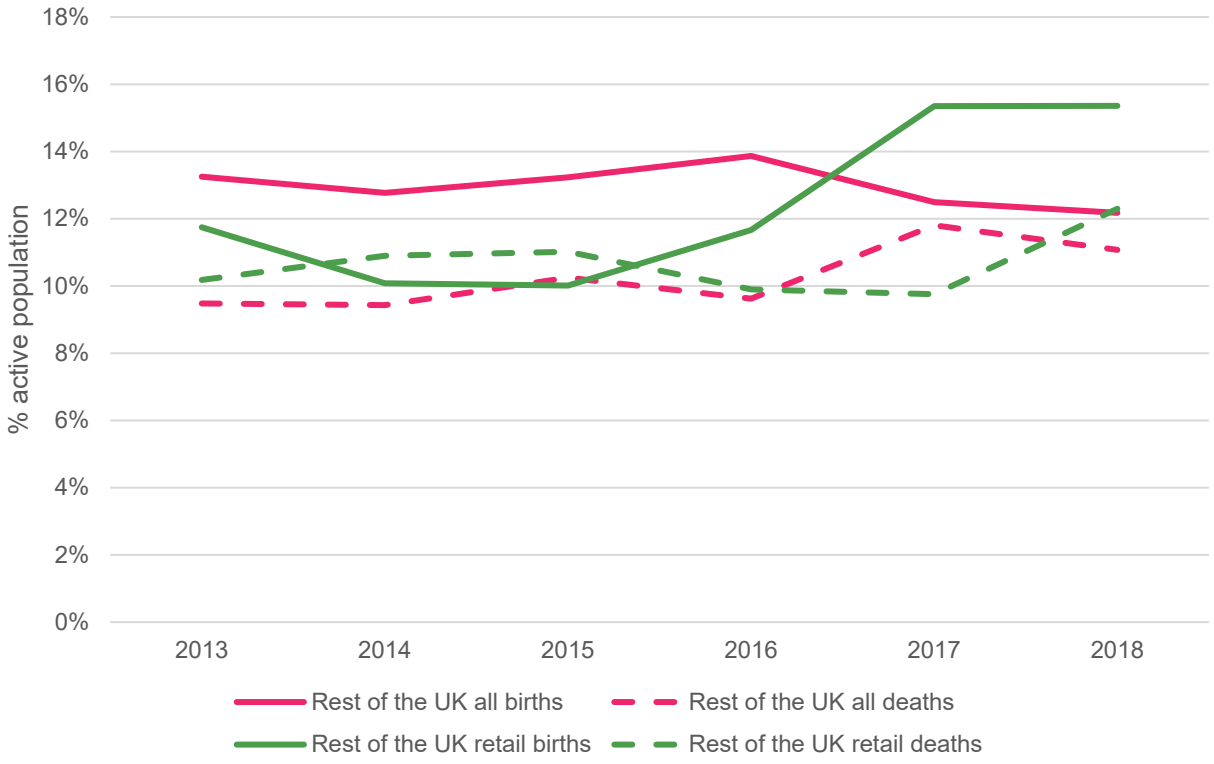
[91] See The probability of automation in England - Office for National Statistics

Figure A.4: Birth & death rate of retail goods and all businesses, London, 2013-18



Source: ONS Business Demography

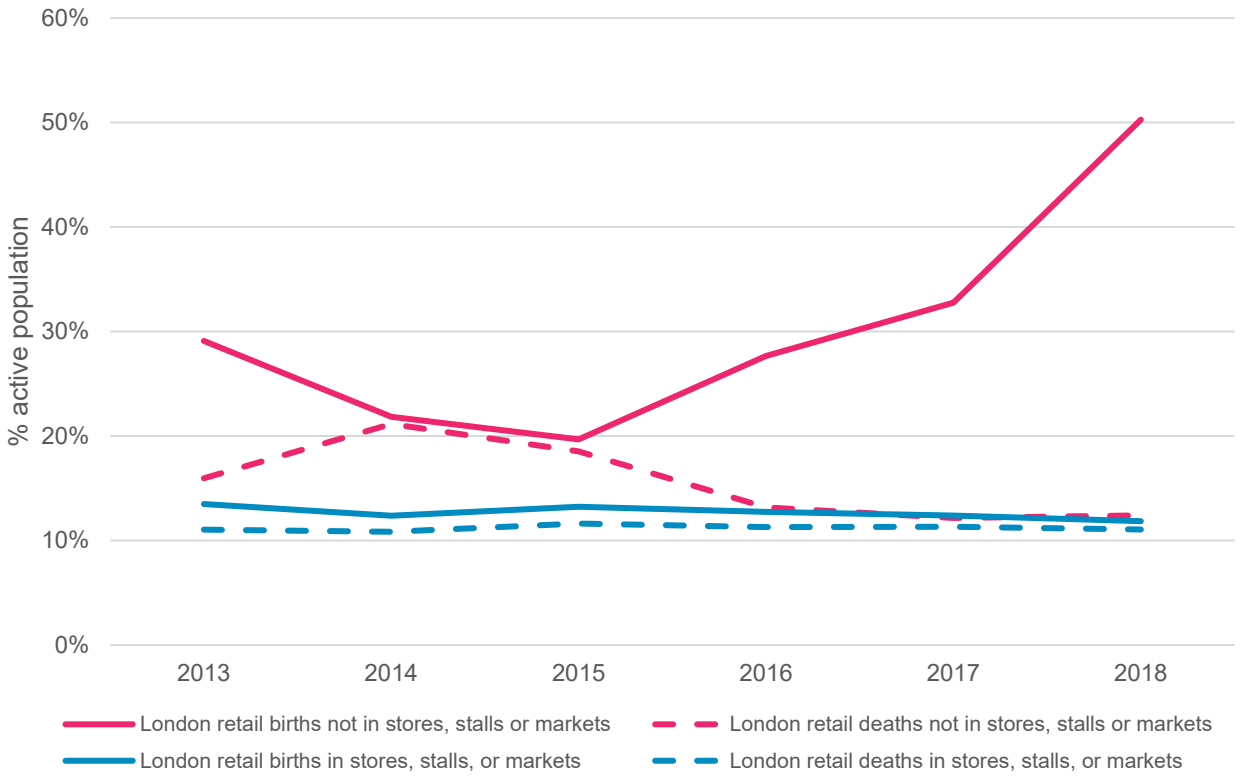
Figure A.5: Birth & death rate of retail goods and all businesses, the UK outside London, 2013-18



Source: ONS Business Demography

The growth in retail goods businesses has been driven by internet-only businesses[92]. There has been sharp growth since 2015, and in London in 2018 the birth rate was over 50%, while the death rate has remained stable, and comparable with other retail goods businesses, (Figure A.6). For the rest of the UK the birth rate in 2017 was a little over 35%. This rate fell in 2018, and the death rate also increased markedly in 2018, (Figure A.7). For both London and the rest of the UK the birth and death rates for non-internet-only businesses have remained little changed between 2013 and 2018. For London total retail goods businesses have been rising as the birth rate has been slightly in excess of the death rate, while the opposite is true for the rest of the UK.

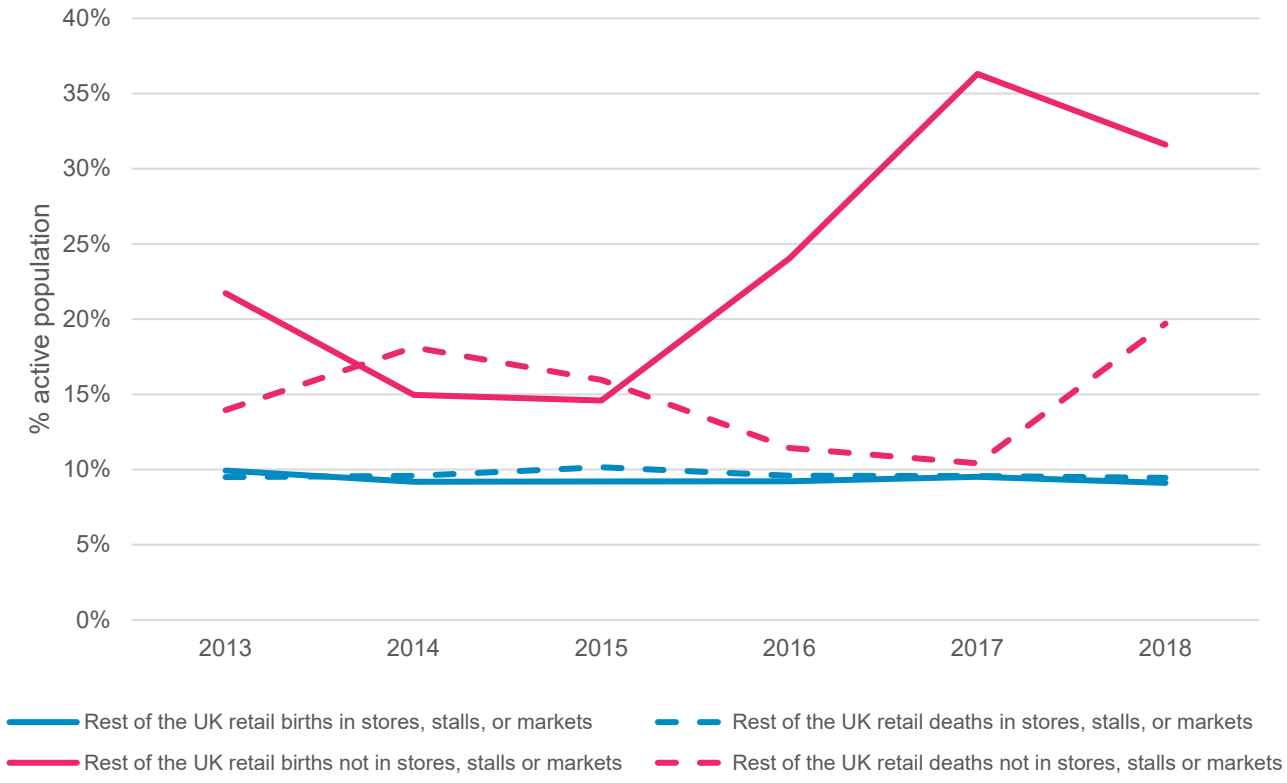
Figure A.6: Birth and death rate of retail goods businesses, internet-only and other, London, 2013-18



Source: ONS Business Demography

[92] The language of the figure is for businesses not in stores, stalls or markets as this includes mail order as well as internet-only businesses.

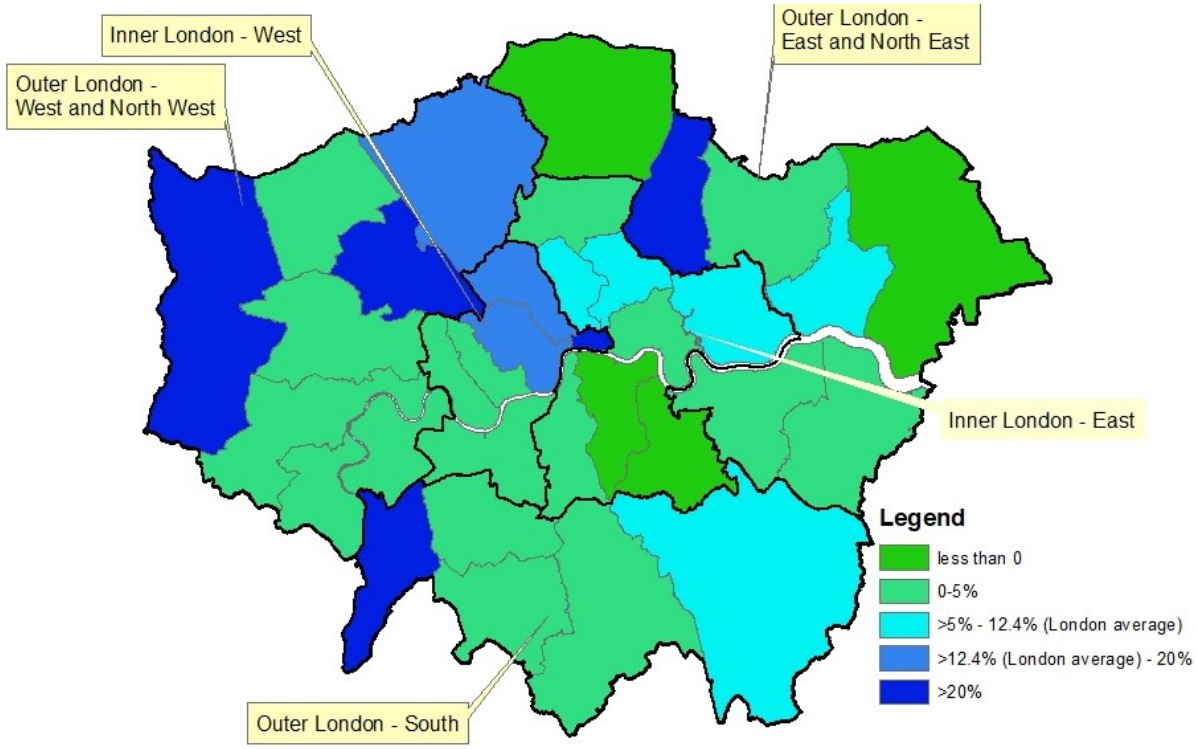
Figure A.7: Birth and death rate of retail goods businesses, internet-only and other, the UK outside London, 2013-18



Source: ONS Business Demography

The growth in internet-only businesses has not been evenly distributed across London. For example, in 2018, the number of retail goods businesses fell in Enfield, Havering, Lewisham, and Southwark. In comparison, the net birth rate was 54% in the City of London, 44% in Kingston upon Thames, 35% in Brent, 34% in Waltham Forest, and 22% in Hillingdon (Map A.1) .

Map A.1: Retail goods businesses net birth rate, London local authorities, 2018



Source: ONS Business Demography

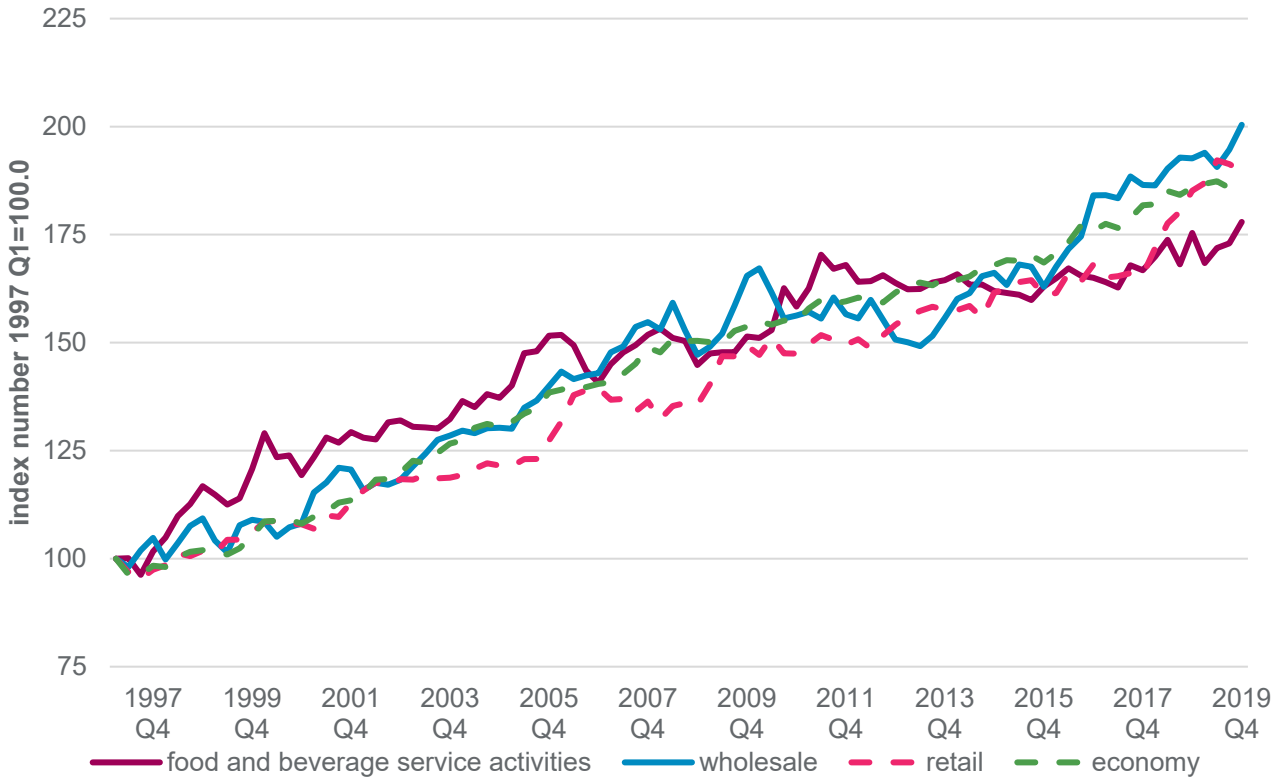
In summary, the population of non-internet-only retail goods businesses has remained fairly stable over the period 2013-18 for both London and the UK. There has been a sharp rise in internet-only businesses since 2015 for both geographies, with a birth rate for London of over 50% in 2018. This suggests that technological change has not been an important enabler for market entry into the traditional retail goods sector, but it has created a significant competitive threat from internet-only businesses.

A.5 The measurement of productivity

The best way to measure productivity is as GVA/hour, as hours worked is the closest measure to effort. Data limitations mean that in Chapter 2 it has only been possible to provide comparisons using the measures of GVA/job and GVA/employee job. This section provides some discussion of the relative merits of these measures.

Labour productivity by the preferred measure of GVA/hour slowed for the UK economy, and across its sectors after the 2008 recession, (Figure A.8). It has remained comparatively slow for the UK economy. For the retail goods sector productivity growth remained sluggish until the end of 2017, which is consistent with the ESCoE paper discussed above, before rising strongly from 2018 onwards. Wholesale productivity growth picked up markedly after 2015 and has remained above the growth rate for the economy. While the productivity growth rate for Food and beverage service activities has lagged behind that of the economy.

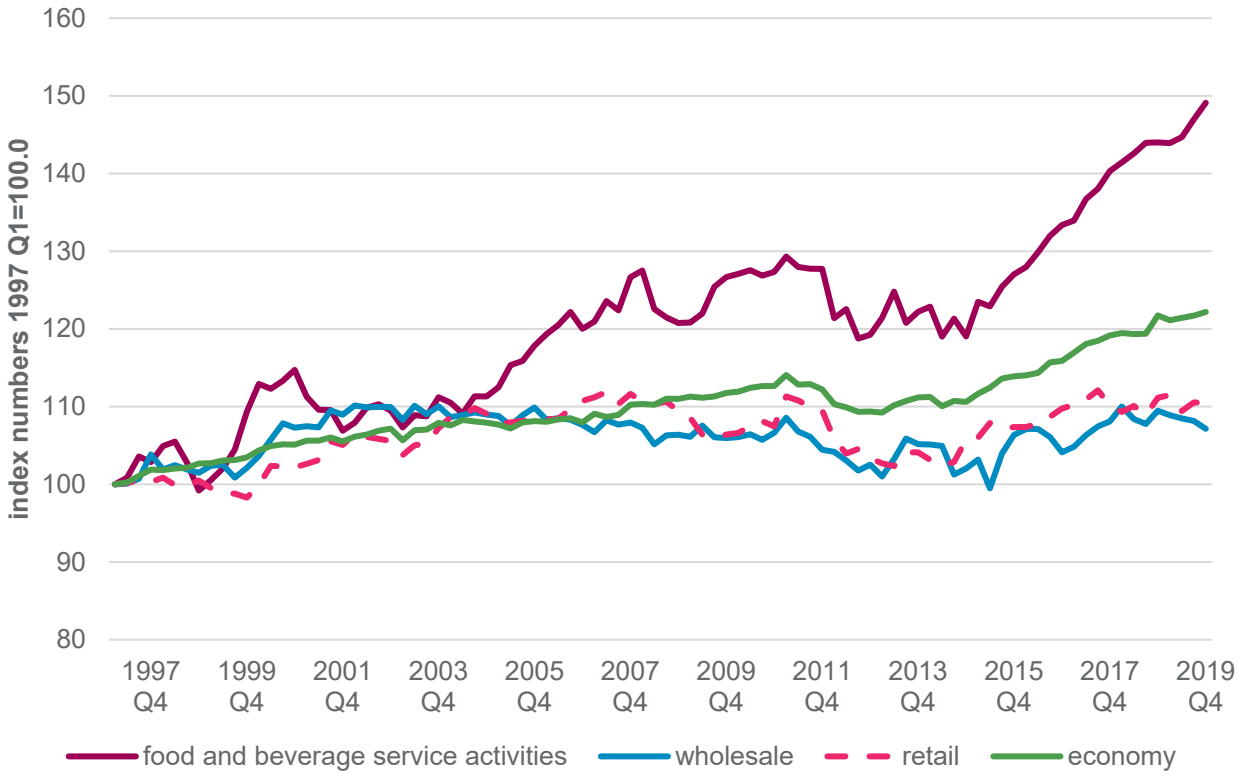
Figure A.8: Labour productivity (output/hour) for the retail goods sector, whole economy, and comparator sectors, 1997-2019, UK, index numbers 1997 Q1 = 100.0



Source: ONS labour productivity by industry division

From mid-2013 hours worked in the economy started rising, (Figure A.9). This has also been true for retail goods, and the comparator sectors, although hours began to fall for the retail goods and Wholesale sectors in 2018. In contrast, there continues to be strong growth in hours worked in Food and beverage service activities.

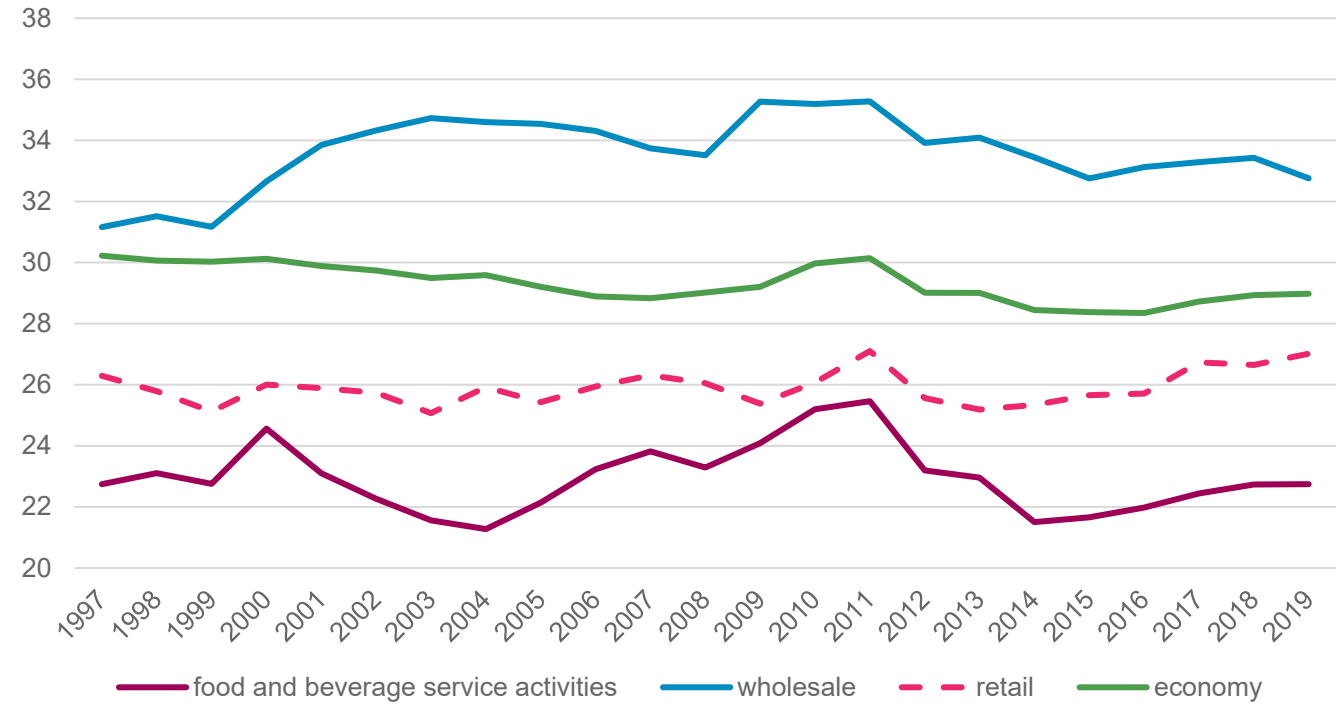
Figure A.9: Hours worked for the retail goods sector, whole economy, and comparator sectors, 1997-2019, UK, index numbers 1997 Q1 = 100.0



Source: ONS labour productivity by industry division

It is not always the case that rising hours worked are reflected in more jobs. The long-term trend for the UK economy in hours worked per job has been downwards although it began rising in 2006 before falling in 2011 and rising again from 2016. Over time in the retail goods sector each job has been for around 26 hours a week with some fluctuations, although hours worked have been increasing since 2013. For the Wholesale sector the hours worked for each job has been declining since 2011. Food and beverage service activities have gone through some large fluctuations, with the hours worked by each job rising from 2004, before falling after 2011, and rising again from 2014, (Figure A.10).

Figure A.10: Hours worked/job for the retail goods sector, whole economy, and comparator sectors, 1997-2019, UK

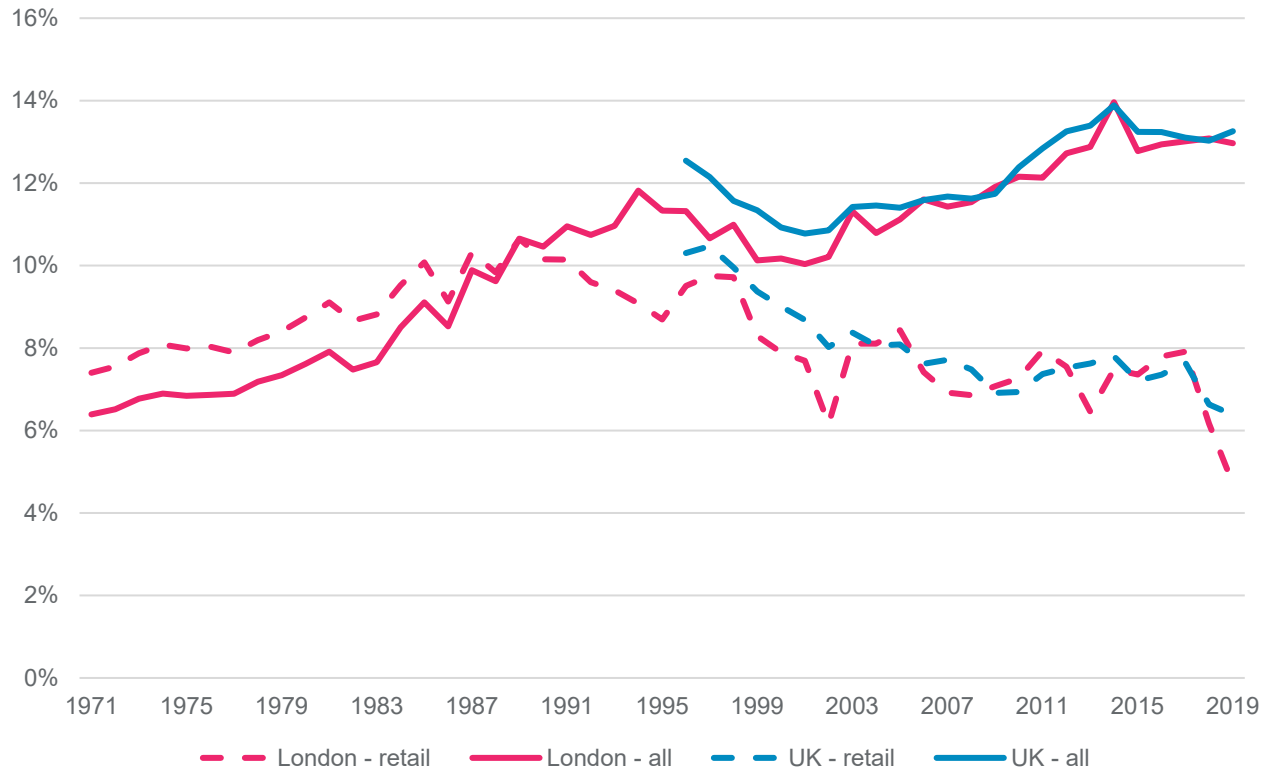


Source: ONS labour productivity by industry division

The main conclusion of this analysis is that the spurt in retail goods productivity may have happened later than suggested in Chapter 2 using the GVA/job measure, as the growth in jobs from 2013 has exceeded the growth in hours worked in each job.

The other productivity measure used in Chapter 2 is GVA/employee job. Its limitation is that the measure of jobs excludes the self-employed while output includes the efforts of this group. The long-term trends are for the share of self-employed jobs for the whole economy to be rising both for London and the UK, and for retail goods for it to be falling for both geographies, (Figure A.11). By 2019 it was under 5% of all jobs compared with 13% of all jobs in London.

Figure A.11: London and UK, retail goods and all economy self-employed share of jobs, 1971-2019



Source: ONS Workforce Jobs series

A GVA/employee job measure overstates productivity. For the retail goods sector this discrepancy is diminishing as the importance of self-employment declines, while for the whole economy the difference is rising. In consequence, productivity growth for retail goods will be overstated by this measure while for the whole economy will be understated. This is ignoring any effects from changes in hours worked.

Appendix B – Analysis of factors influencing the distribution of shops across London

B.1 Overview and main findings

This appendix looks at a range of factors which might influence the location of shops, both retail and leisure, and how this might evolve across London. As with other parts of this paper it finds a link with employment, but not recent changes in employment this time at a local authority level, section B.2. There is also a relationship between retail goods employment and total employment for high streets by local authority, but again not for changes. There are no corresponding relationships for areas not on high streets, section B.3. At an LSOA level there is no evidence of a relationship between the Index of Multiple Deprivation (IMD) for an area, or its population density, number of shops, or changes in the number of shops, section B.4. It is likely that the same results would be obtained if the analysis used retail shops rather than all shops.

The remaining sections are:

- Locations of shops across London local authorities;
- Location of retail goods employment across London OS high streets;
- Distribution of shops by LSOA.

B.2 Locations of shops across London local authorities

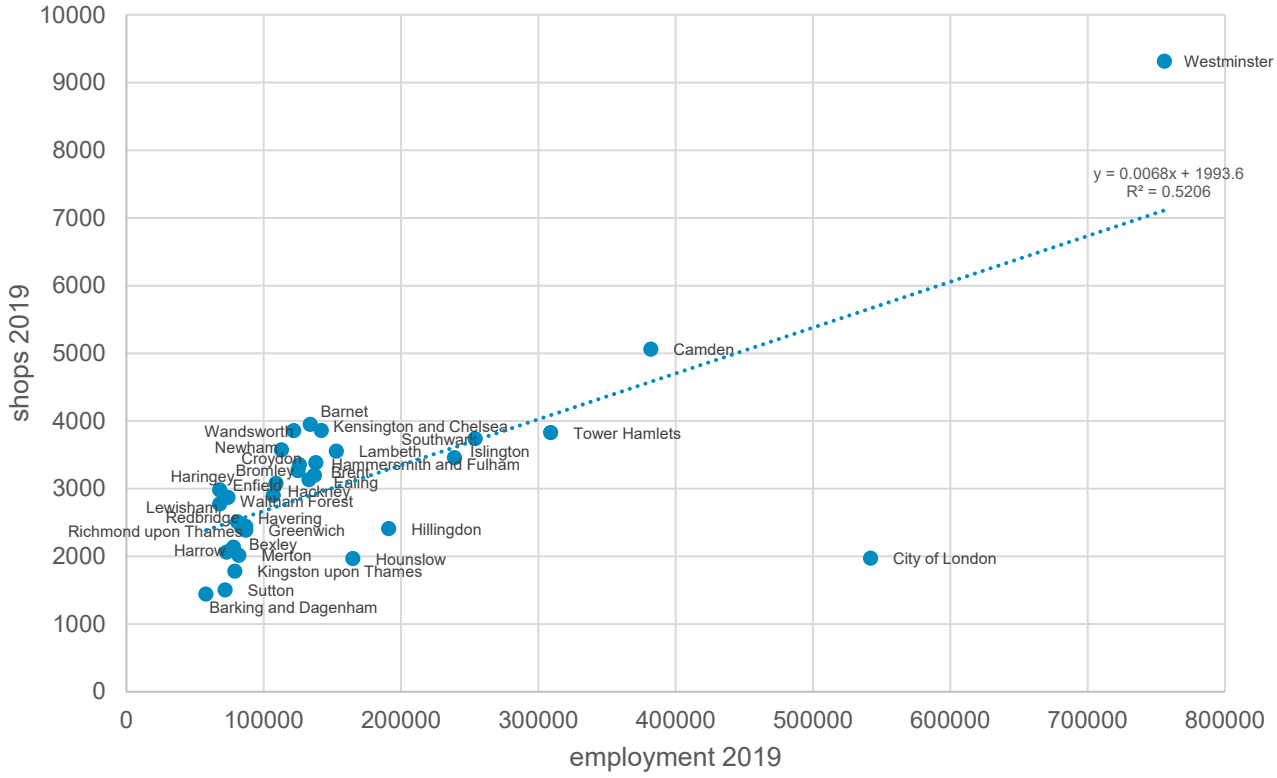
Figures B.1 to B.4 present by London local authority:

- Shops and employment;
- Change in shops and change in employment;
- Shops and population;
- Change in shops and change in population.

The only relationship with statistical significance is that between shops and employment.

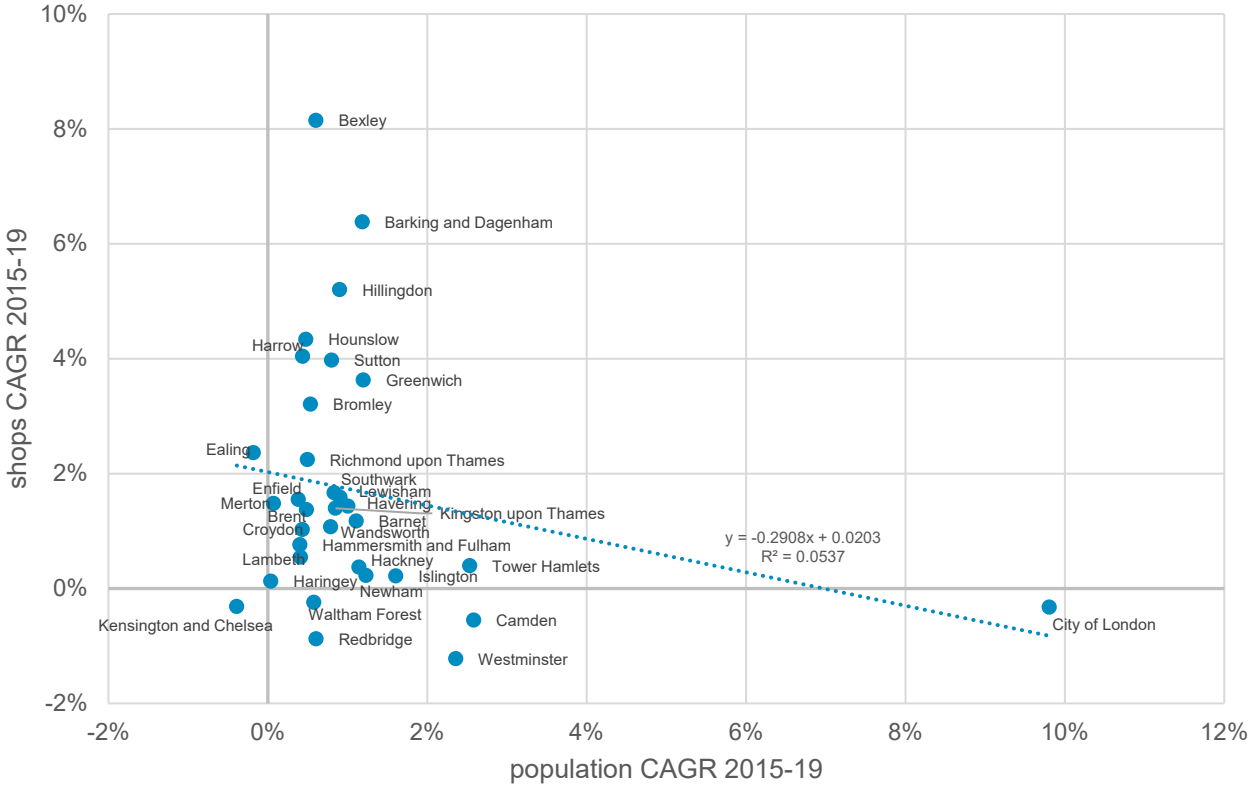
Each figure includes a trendline and a value for the R^2 coefficient. This measures the goodness-of-fit of data to a trendline. Values of 1 would indicate that the model exactly explained the underlying data, while values of 0 would indicate no explanatory power. Values of R^2 of around 0.5 and higher suggest some explanatory power.

Figure B.1: Shops and employment by local authority, 2019



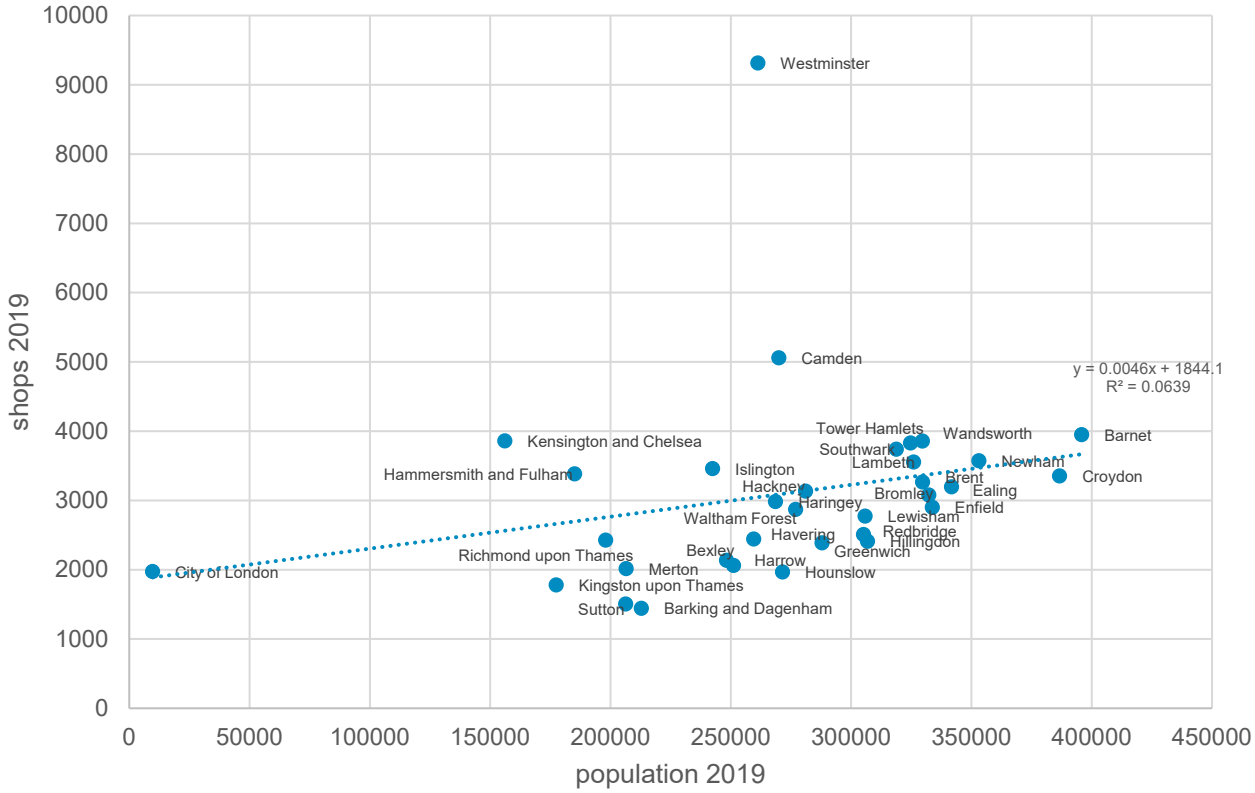
Source: ONS BRES and GLA Economics analysis of LDC data. Note: CAGR is compound annual growth rate

Figure B.2: Change in shops and employment by local authority, 2015-19



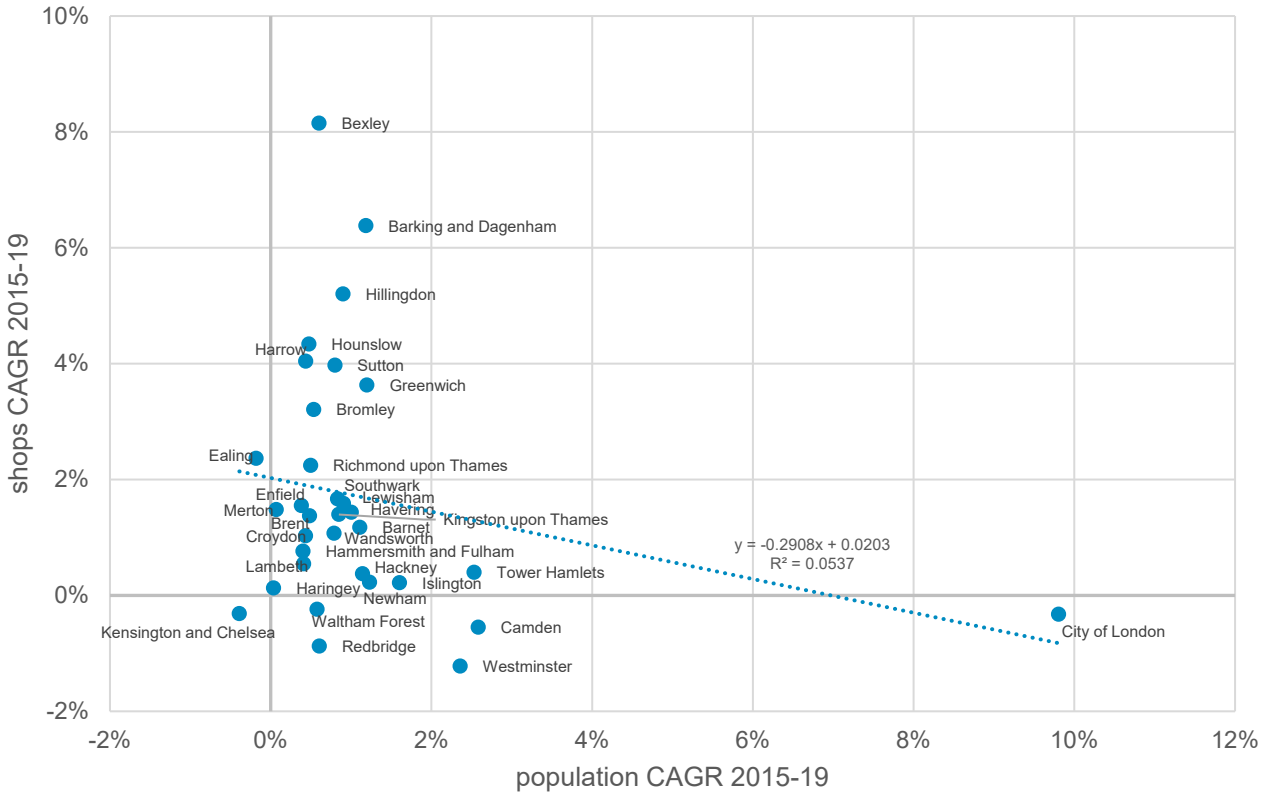
Source: ONS BRES and GLA Economics analysis of LDC data Note: CAGR is compound annual growth rate

Figure B.3: Shops and population by local authority, 2019



Source: ONS mid-year population estimates & GLA Economics analysis of LDC data. Note: CAGR is compound annual growth rate

Figure B.4: Change in shops and population by local authority, 2015-19



Source: ONS mid-year population estimates & GLA Economics analysis of LDC data. Note: CAGR is compound annual growth rates

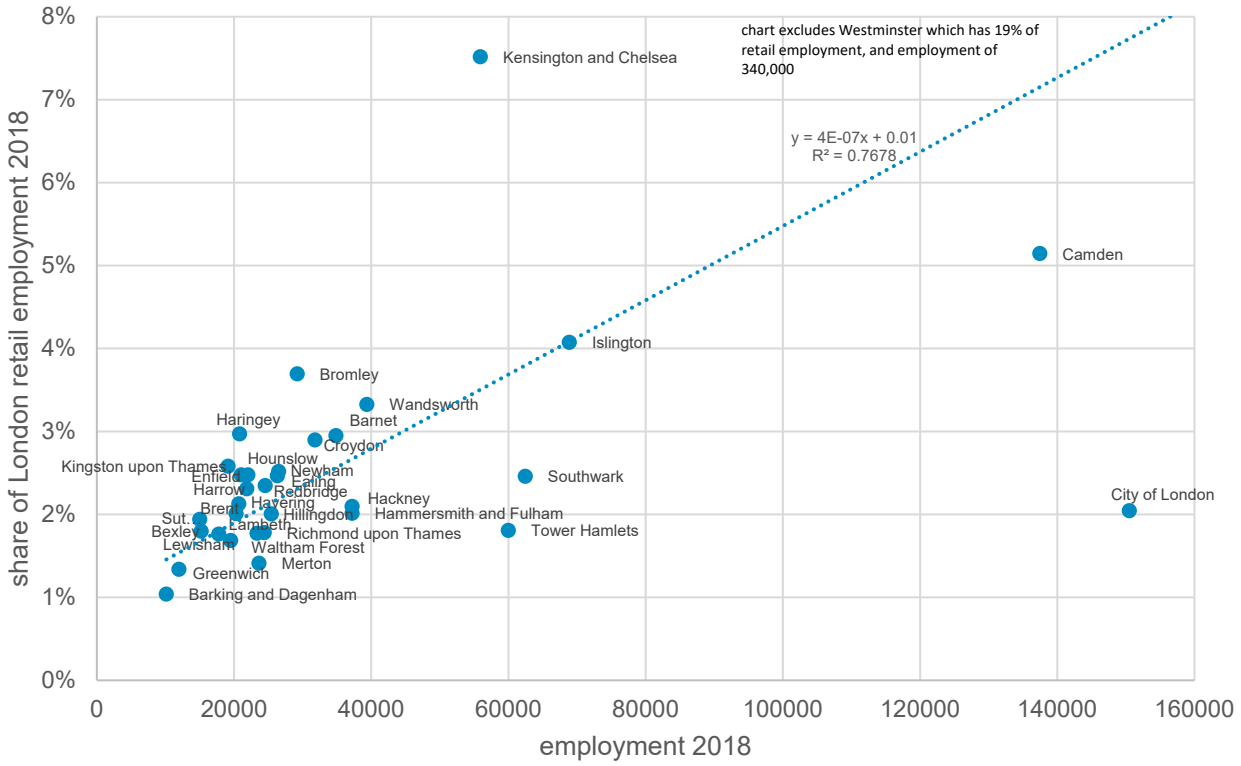
B.3 Location of retail goods employment across London OS high streets

Figures B.5 to B.10 present by London local authority:

- High street London share of retail goods employment and total employment;
- Not on high street London share of retail goods employment and total employment[93];
- High street annual change in retail goods and total employment;
- Not on high street annual change in retail goods and total employment;
- High street retail goods employment and nearby population;
- Not on high street retail goods employment and nearby population.

The only relationship with statistical significance is that between retail and total employment on high streets. There is no association between retail and total employment not on high streets.

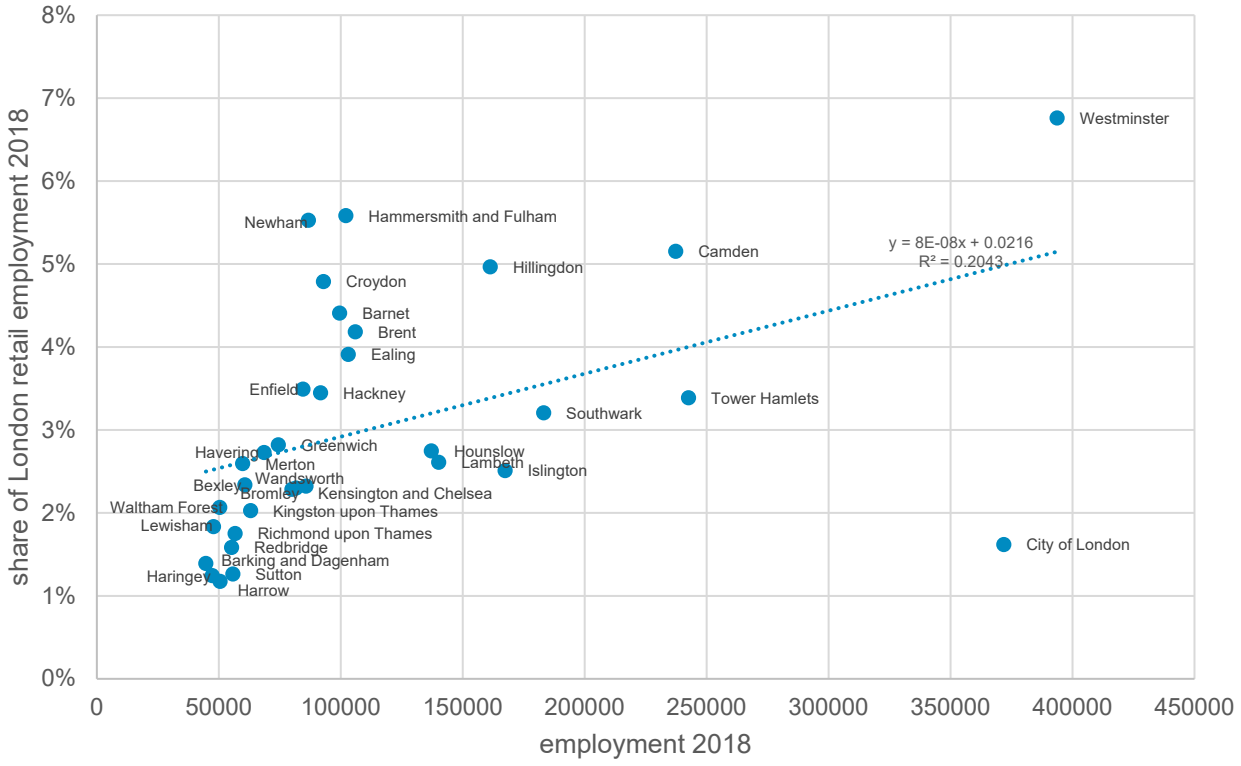
Figure B.5: Share of London retail goods employment and employment on high streets by local authority, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

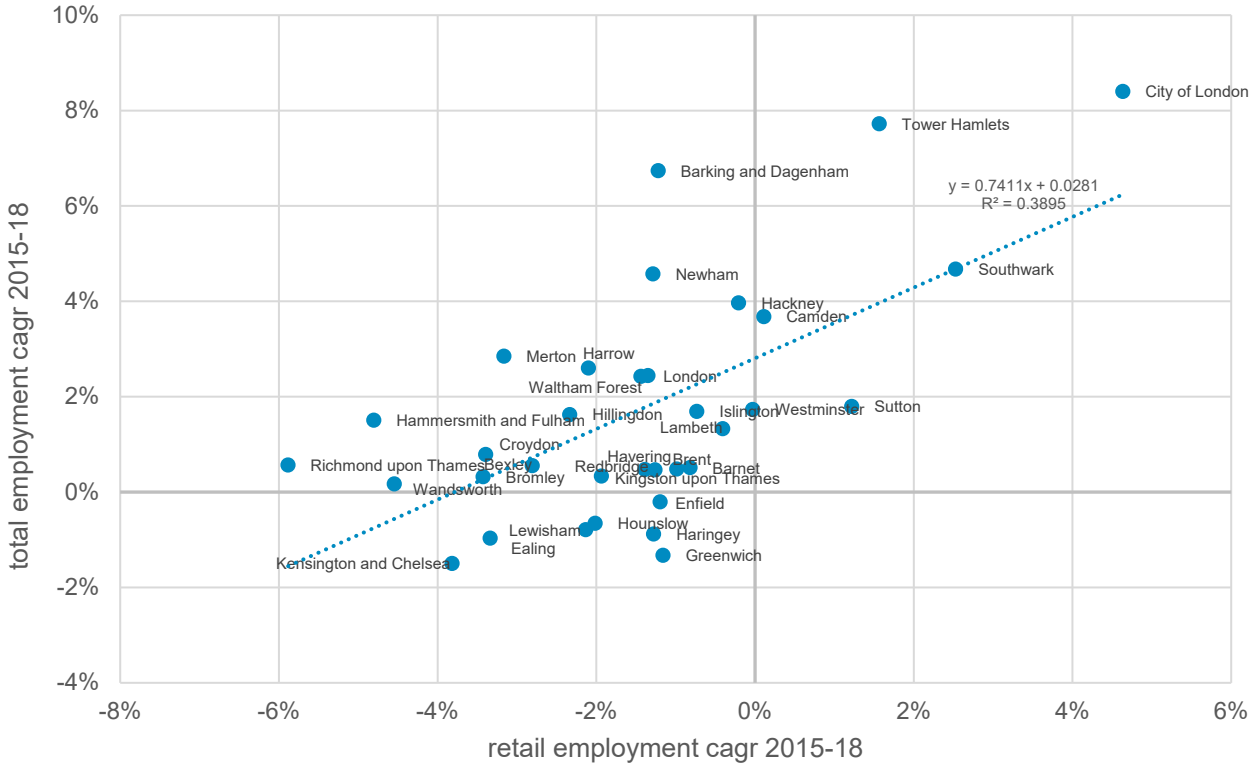
[93] The estimated R^2 are almost identical if retail employment rather than London share of retail employment is used

Figure B.6: Share of London retail goods employment and employment not on high streets by local authority, 2018



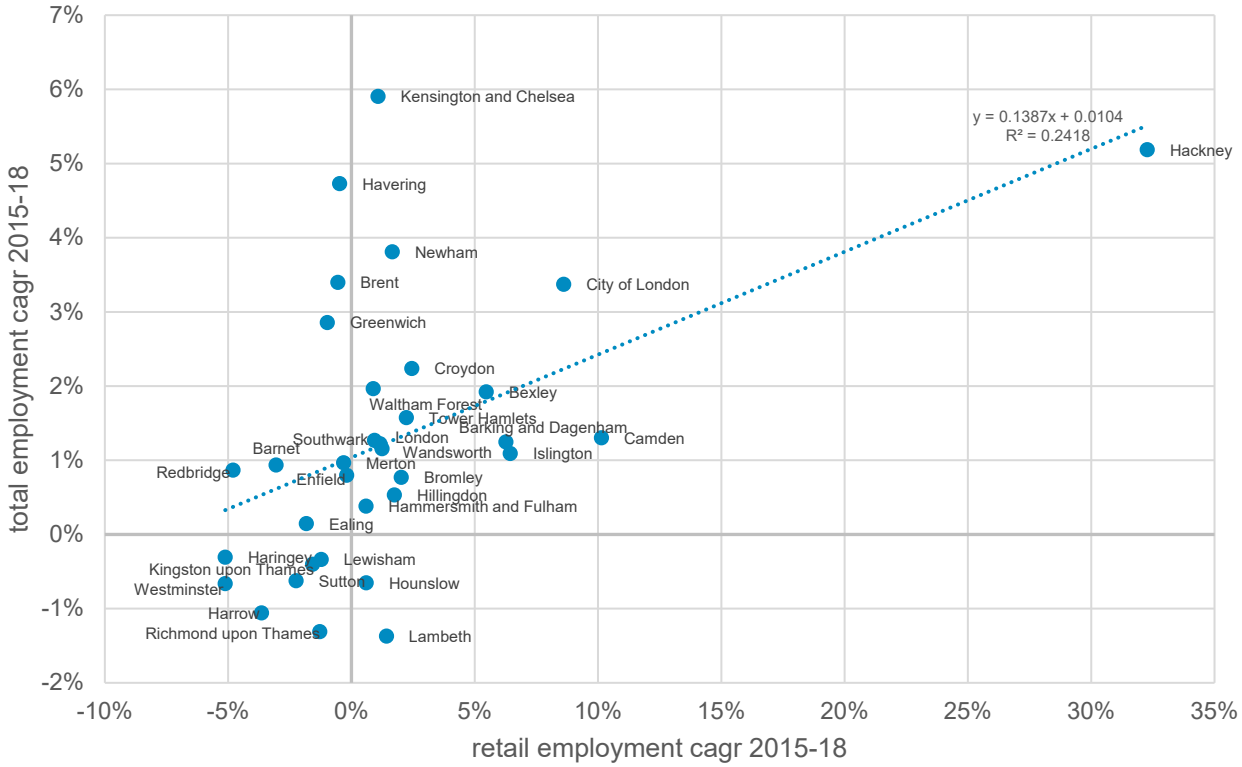
Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Figure B.7: Annual change in retail goods and all employment on London high streets by local authority, 2015-2018



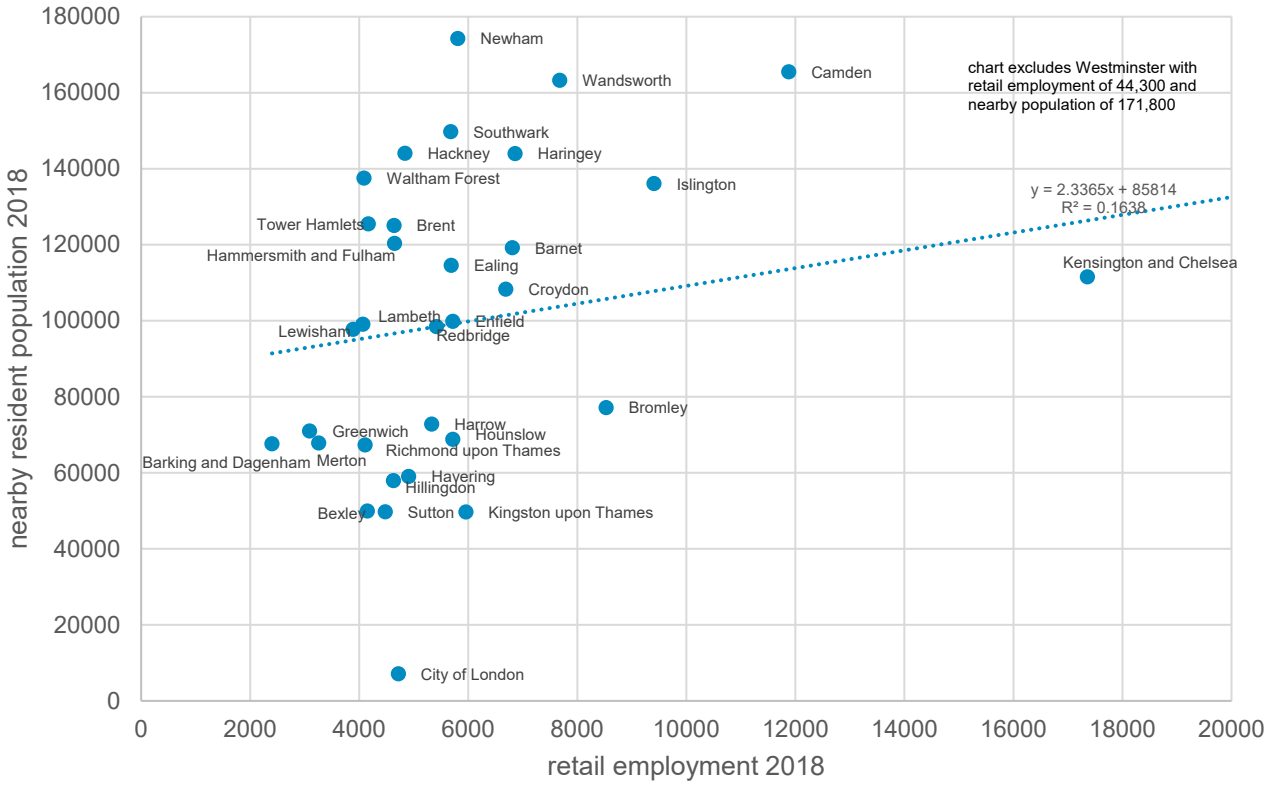
Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Figure B.8: Annual change in retail goods and all employment not on London high streets by local authority, 2015-2018



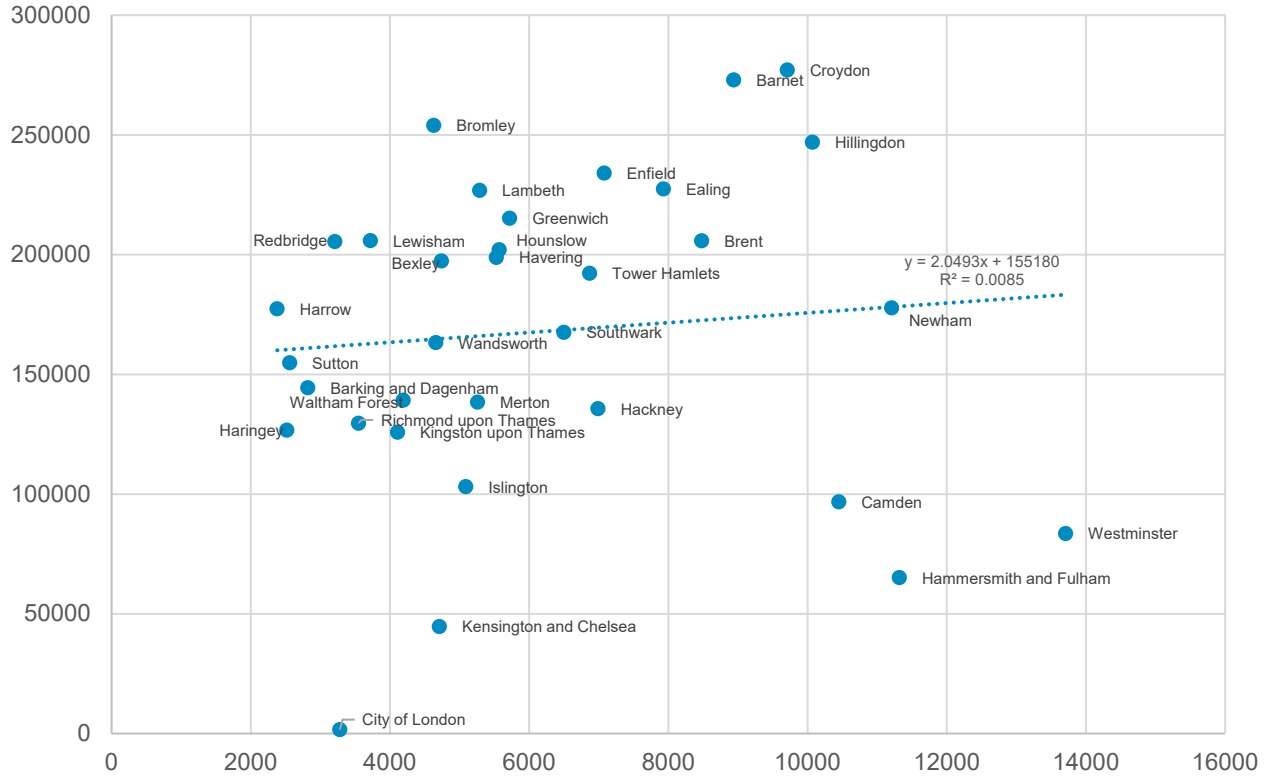
Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Figure B.9: High street retail goods employment and population within 200m by London local authority, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Figure B.10: Not on high street retail goods employment and population within 200m by London local authority, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain and ONS mid-year population estimates

B.4 Distribution of shops by LSOA

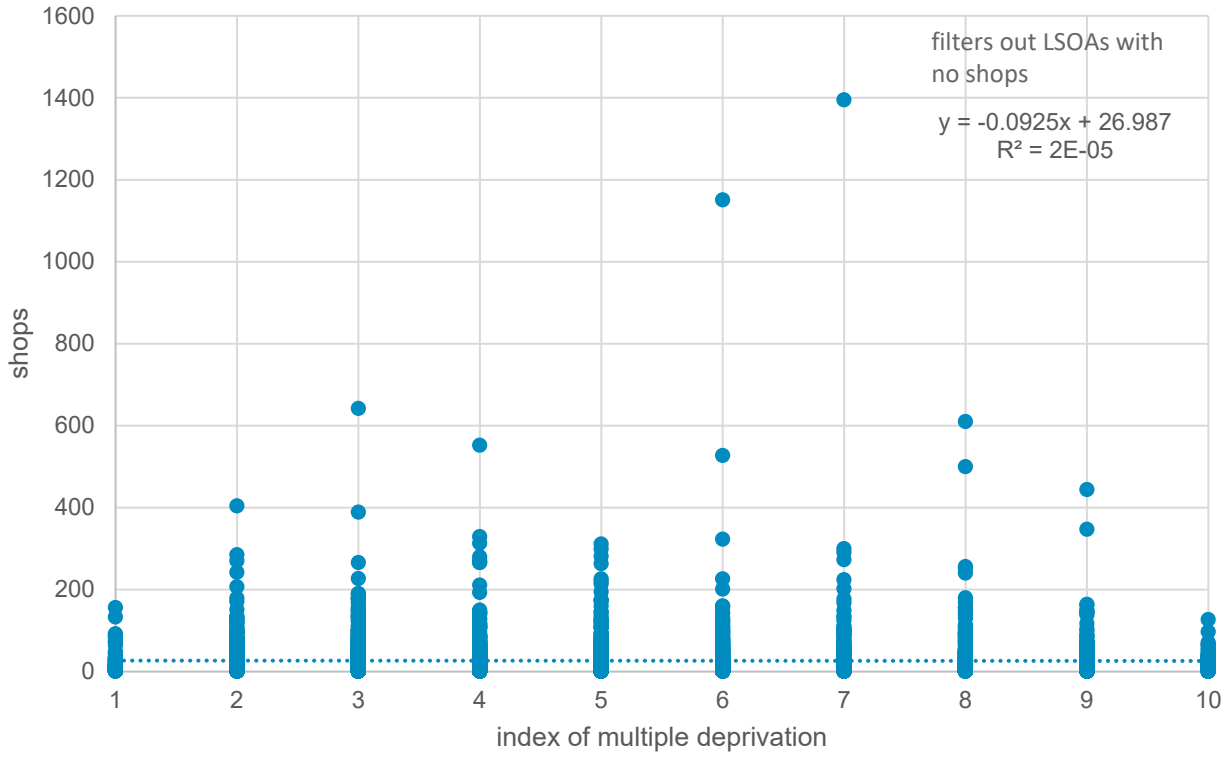
Figures B.11 to B.15 present by LSOA:

- Shops and IMD decile – 1 is least deprived, and 10 is most deprived;
- Shops per '000 km^2 and IMD decile;
- Annual growth in shops 2015-19 and IMD decile;
- Shops and population density;
- Shops per '000 km^2 and population density.

It finds no statistically significant relationships.

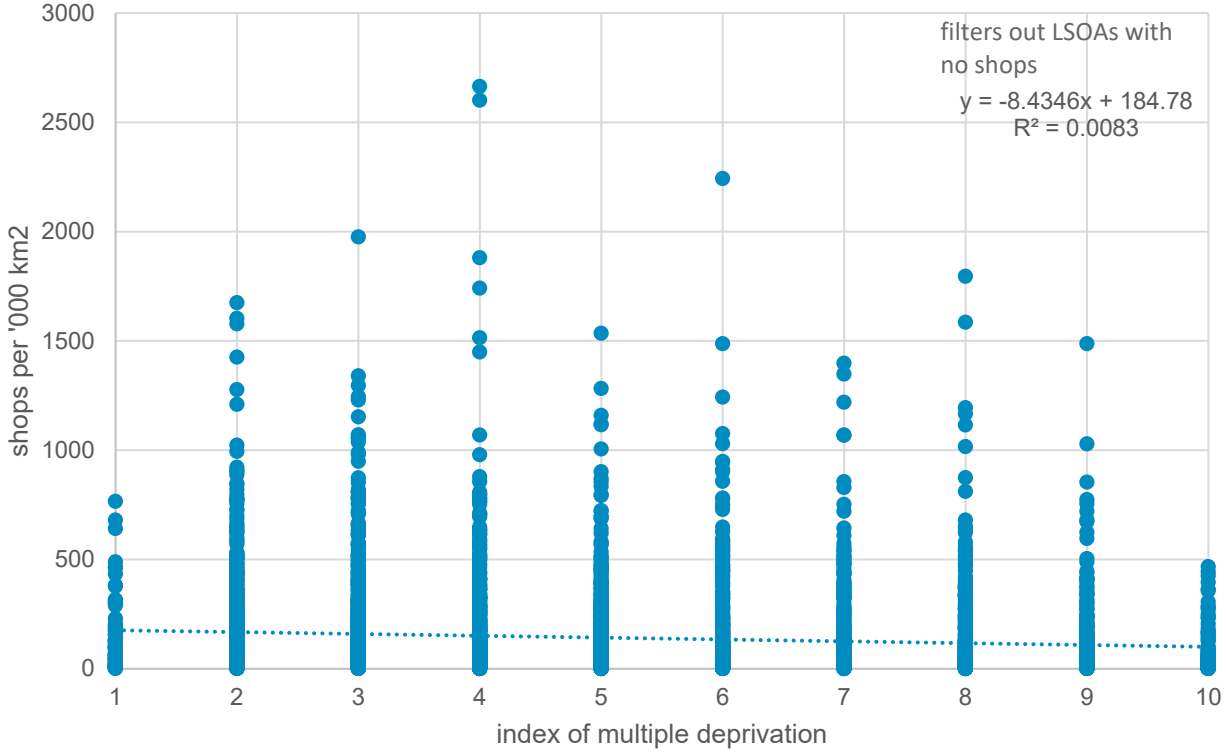
The use of shops per '000 km^2 is a normalising measure as LSOAs are not equal in size. The use of population density checks out the hypothesis that shops might be located where there are concentrations of people, and again normalises. The analysis excludes LSOAs where there were no shops. In 2019 this was 20% of LSOAs, that is 984 out of a total of 4835.

Figure B.11: Shops in 2019, and IMD decile 2019 by LSOA



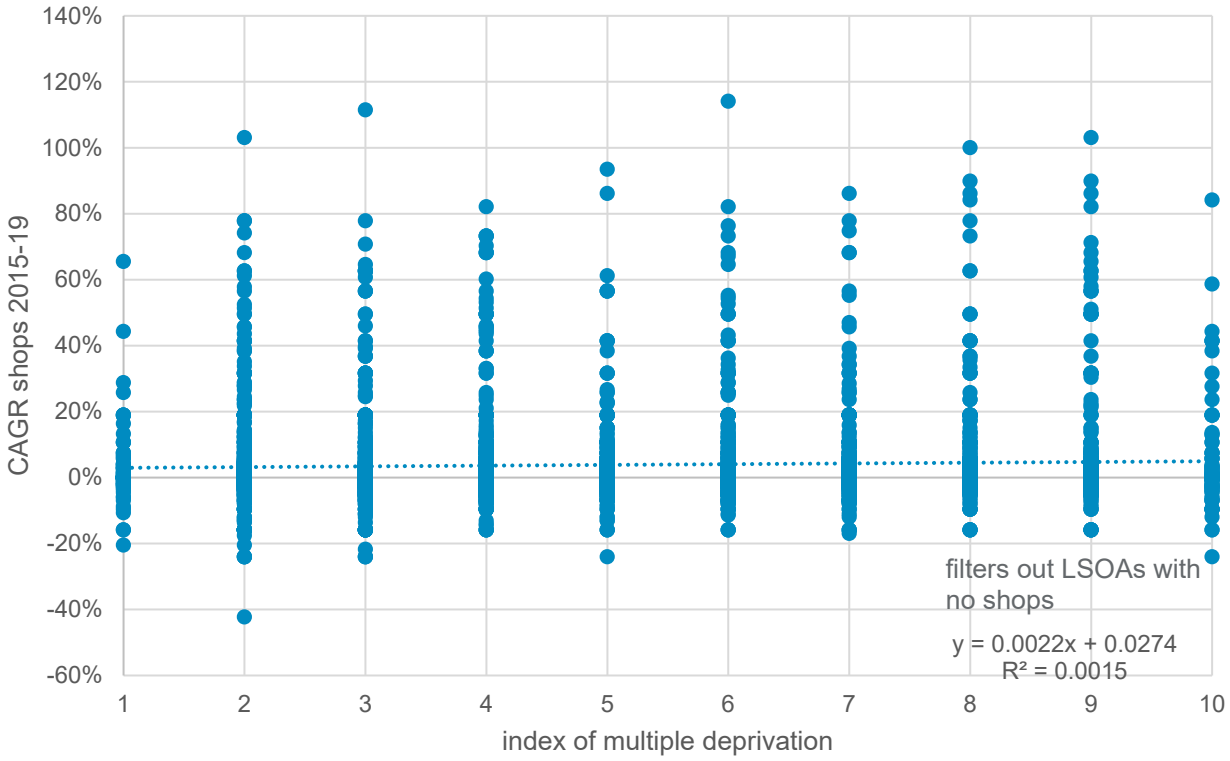
Source: MHCLG IMD classification and GLA Economics analysis of LDC data

Figure B.12: Shops per '000 km² in 2019, and IMD decile 2019 by LSOA



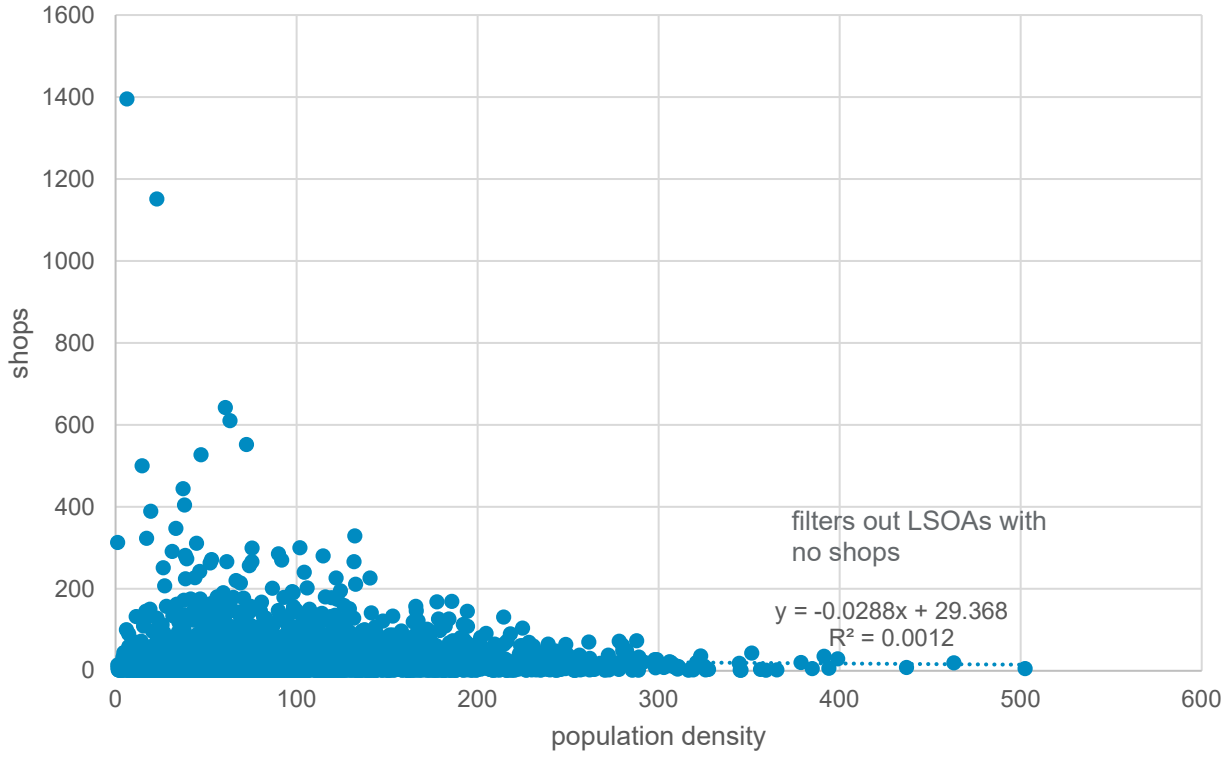
Source: MHCLG IMD classification and GLA Economics analysis of LDC data

Figure B.13: Annual growth in shops in 2015-19, and IMD decile 2019 by LSOA



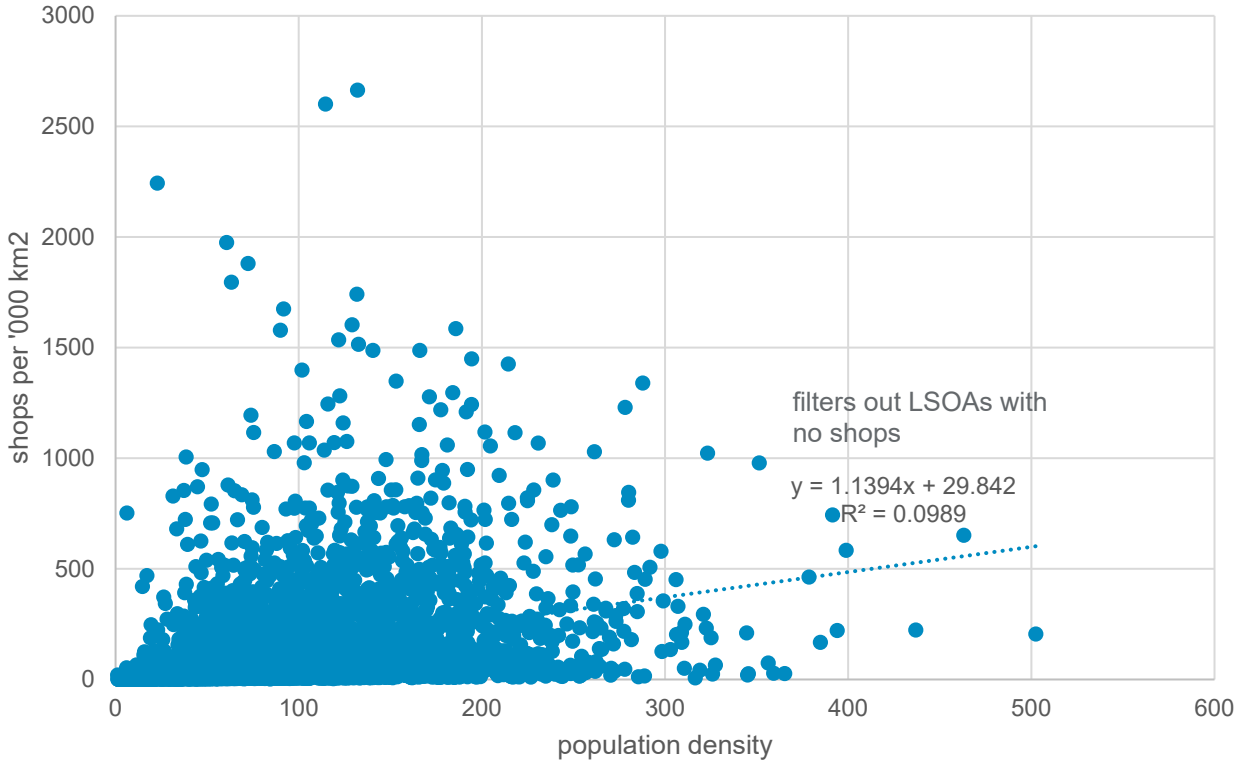
Source: ONS mid-year population estimates and GLA Economics analysis of LDC data

Figure B.14: Shops in 2019, and population density 2019 by LSOA



Source: ONS mid-year population estimates and GLA Economics analysis of LDC data

Figure B.15: Shops per '000 km² in 2019, and population density 2019 by LSOA



Source: ONS mid-year population estimates and GLA Economics analysis of LDC data

Appendix C – Retail characteristics of the main shopping and other areas

C.1 Overview and main findings

Appendix B has looked at possible broader influences on the development of retail shops in London. This appendix considers more narrowly factors which might influence the number of shops such as comparison shops, total number of shops and vacancy rates for local authorities, town centres and high streets.

Over time the proportion of retail properties in the main shopping areas has been in decline. Changes in the number of comparison shops in an area are likely to impact on the total number of shops. Areas with more comparison shops have expanded, and others with fewer have contracted. Town centres seem to have had more capability to diversify from a loss of comparison shops than have high streets. In contrast, in terms of floorspace, retail properties have become more important on high streets rising to a share of 35% by 2018/19.

The analysis cannot explain why retailing in some of the main shopping areas is successful and in others it is not. It may indicate that the trend of polarisation of retailing in town centres with the larger areas growing fastest as has been found for earlier periods[94] may be abating. It is plausible to conclude that some larger developments to make more comparison floorspace available may have been placed at risk from the expansion of e-commerce. The provision of a significant uplift in the quality of shopping and an improved leisure experience may be a way to minimise this risk.

Categories of shops are not of similar sizes across town centres. For example, comparison shops account for 95% of retail floorspace and 55% of retail shops in International Centres. For, International Centres, Metropolitan and Major town centres the proportion of retail floorspace for comparison shops was higher than the proportion of comparison shops – this perhaps indicates that the larger comparison stores are in these areas.

This appendix has the following sections:

- Location of London's main shopping and other areas;
- Properties and floorspace of the main shopping areas;
- Characteristics of town centre types;
- Changes in shops across areas of London.

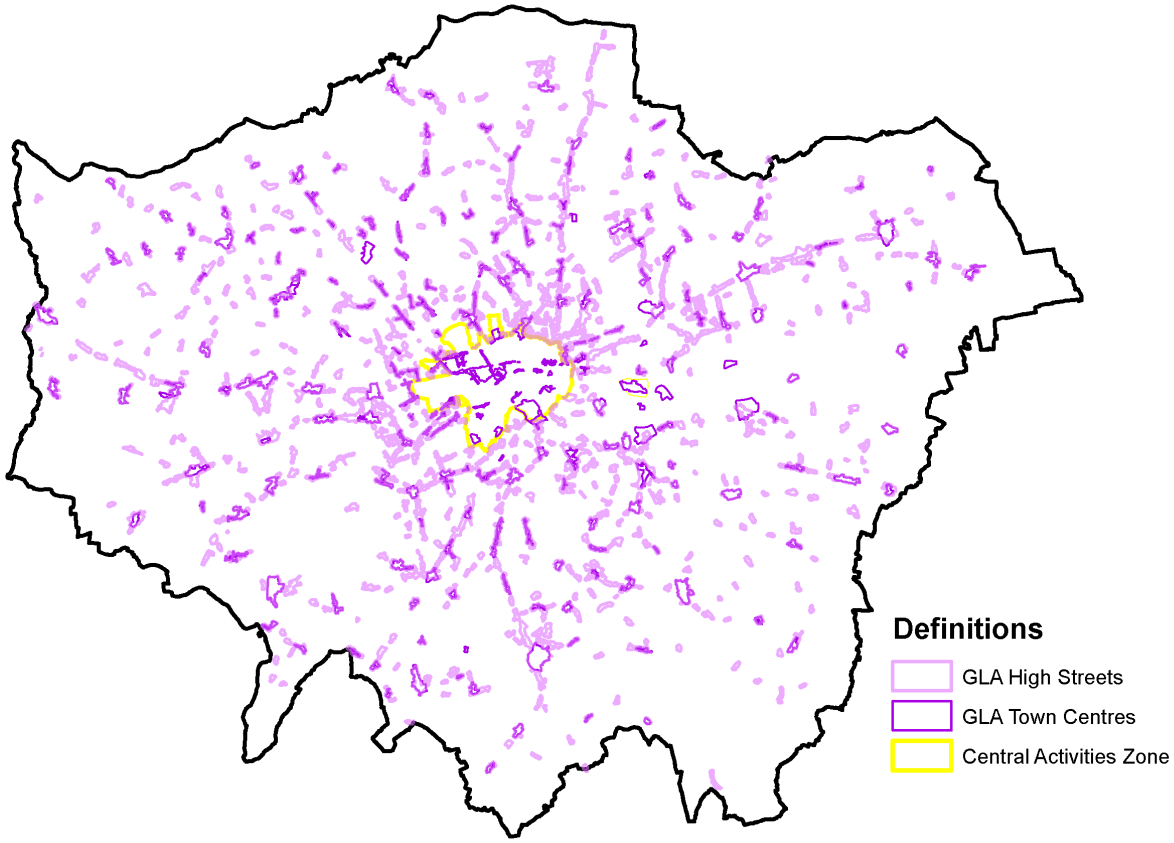
C.2 Location of London's main shopping and other areas

Unsurprisingly, high streets and town centres are distributed across London. As noted in Chapter 3 most town centres overlap with at least one high street. High streets are often located on some of the main arteries through London, both radially and transversally, so have their own existence for this reason. There

[94] See 2017 London Town Centre Health Check Analysis Report, Consumer expenditure and comparison goods floorspace need in London 2017, and Consumer expenditure and comparison goods floorspace need in London 2013

are town centres in the CAZ. As a matter of construction no part of the CAZ has been designated as a high street, (Map C.1).

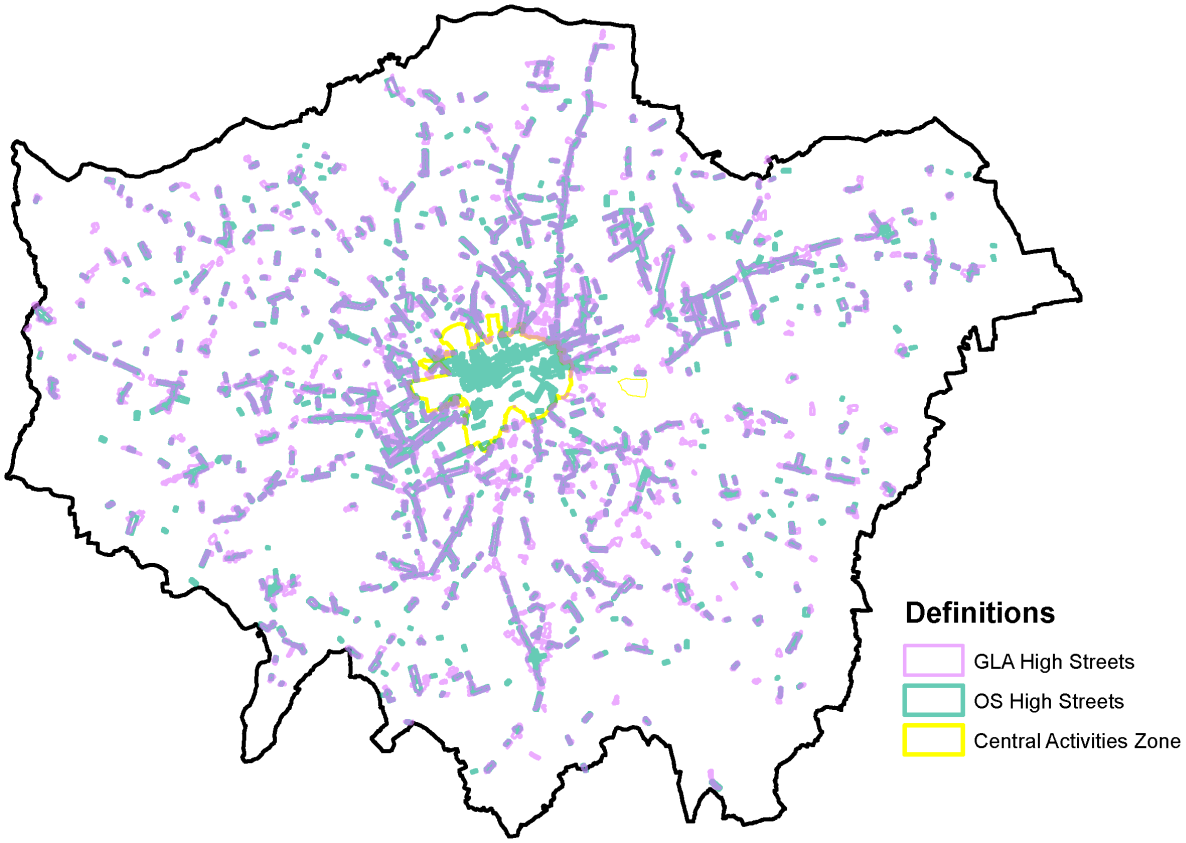
Map C.1: Location of London's high streets and town centres



Source: GLA

OS high streets exhibit a similar pattern across London to the GLA definition. A couple of differences are that a GLA high street might have more than one OS high street along its length, and there are OS high streets in the CAZ, (Map C.2).

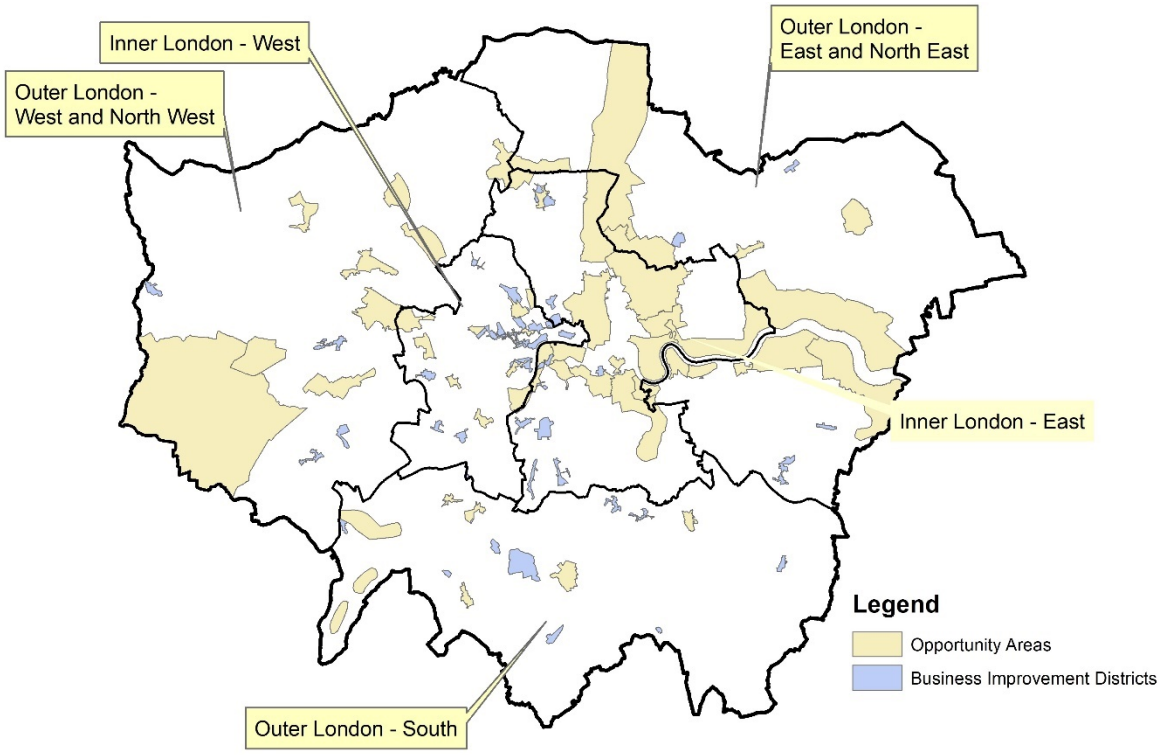
Map C.2: Location of London's high streets and OS high streets



Source: GLA and OS

There are BIDs all round London, if relatively sparsely because of their small numbers, and with a concentration in the centre. OAs, on the other hand, have a clear but not exclusive focus on the areas from the centre up the Lea Valley, and eastwards along the river, and around the airport, (Map C.3).

Map C.3: Location of London's OAs and BIDs



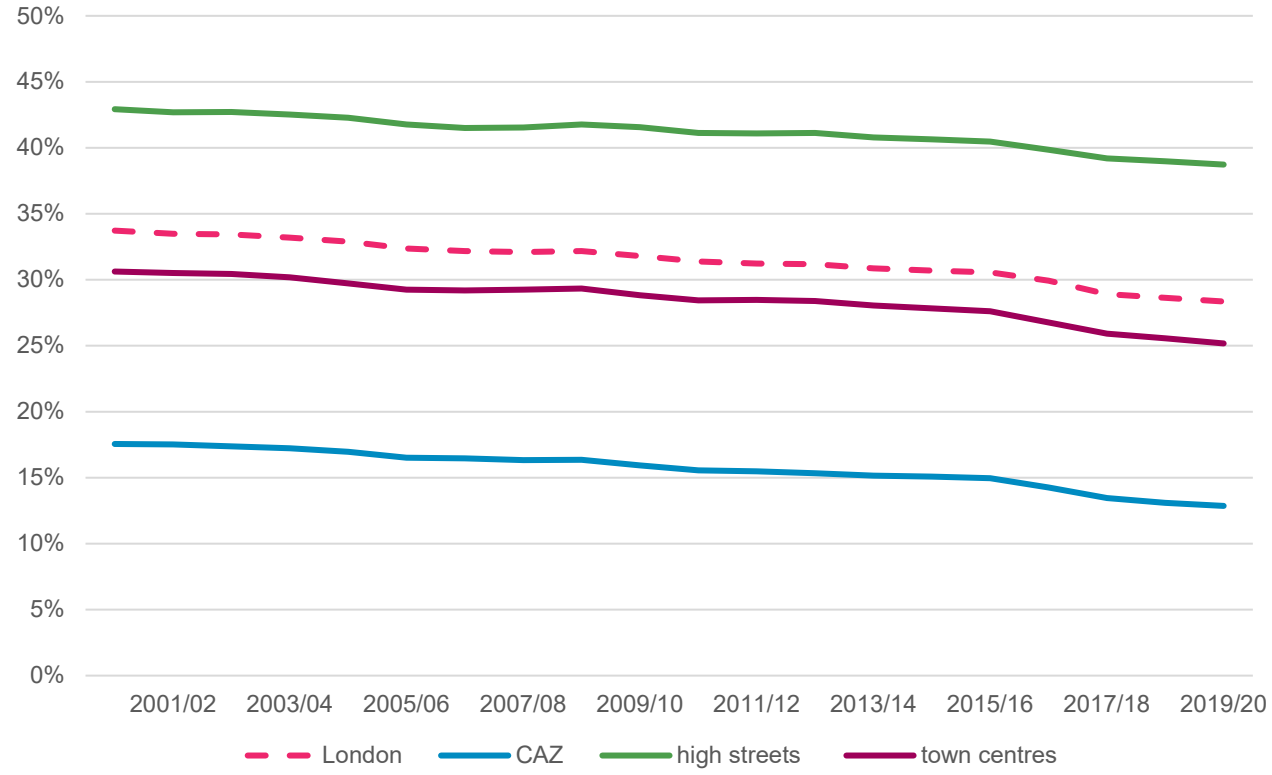
Source: GLA

C.3 Properties and floorspace of the main shopping areas[95]

Chapter 2 found that the retail goods sector has been in relative decline in London. There is a similar picture for the proportion of retail properties in the main shopping areas in London, and for the whole of London. For London it has fallen from 34% in 2000/01 to 28% in 2019/20, (Figure C.1). Retail properties might either be vacant and in use, so it would not be expected that there were significant changes year-on-year over the economic cycle. In 2019/20 the retail proportion of properties was highest on high streets at 39%, falling to 25% for town centres, and 13% for the CAZ.

[95] The area of the analysis in this section for CAZ, town centres, and high streets is the LSOAs within which these shopping areas lie.

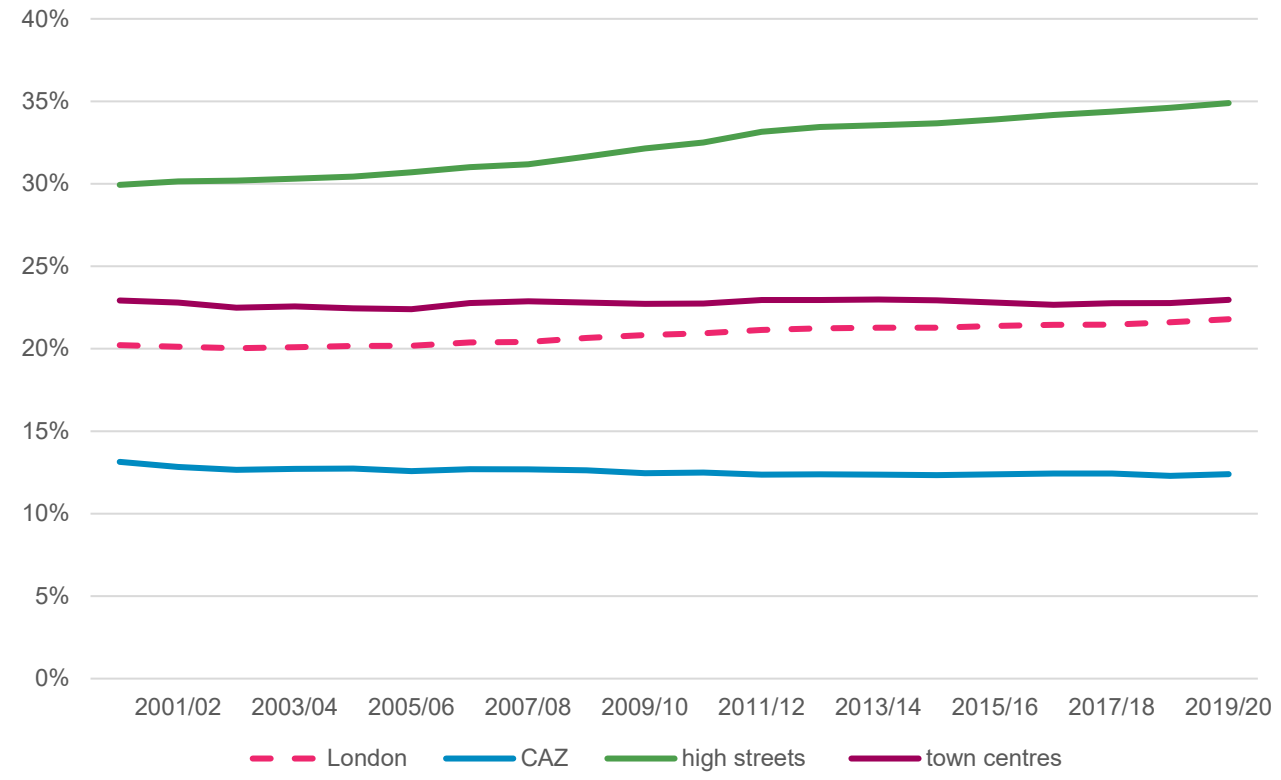
Figure C.1: Proportion of retail properties in London and main shopping areas, 2000/01-2019/20



Source: VOA LSOA data and GLA Economics calculations

A slightly different picture emerges for floorspace. Over the same time period the retail share of floorspace in London has risen from 20% to 22%, (Figure C.2). There has been a marginal decline for the CAZ from 13% to 12%, while more noticeably there has been an increase for high streets from 30% to 35% - this increase is largely because of a decline in the use of space for other uses. For town centres the ratio has remained at 23%.

Figure C.2: Proportion of retail floorspace in London and main shopping areas, 2000/01-2019/20



Source: VOA LSOA data and GLA Economics calculations

C.4 Characteristics of town centre types

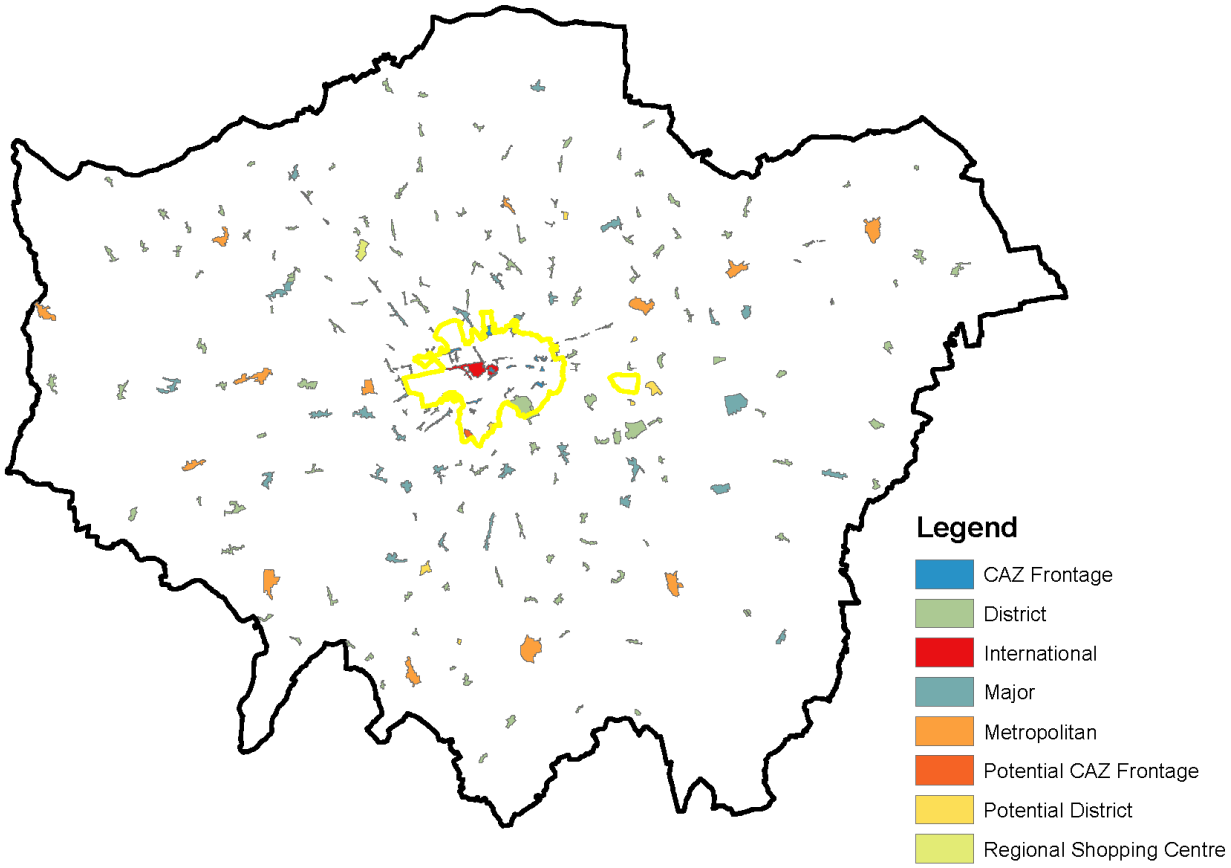
Research up to 2017[96] was suggesting that there had been a polarisation of town centre floorspace with the development of comparison floorspace in the larger town centres at the expense of the smaller centres. This section considers more recent evidence and concludes that this trend could be abating.

Map C.4 presents the sub-classification of town centres[97]. Notable in the CAZ are International, and CAZ Frontages, while the more significant other centres of Metropolitan and Major are again distributed around the capital.

[96] See 2017 London Town Centre Health Check Analysis Report, Consumer expenditure and comparison goods floorspace need in London 2017, and Consumer expenditure and comparison goods floorspace need in London 2013

[97] See the 2017 London Town Centre Health Check for more information on this classification

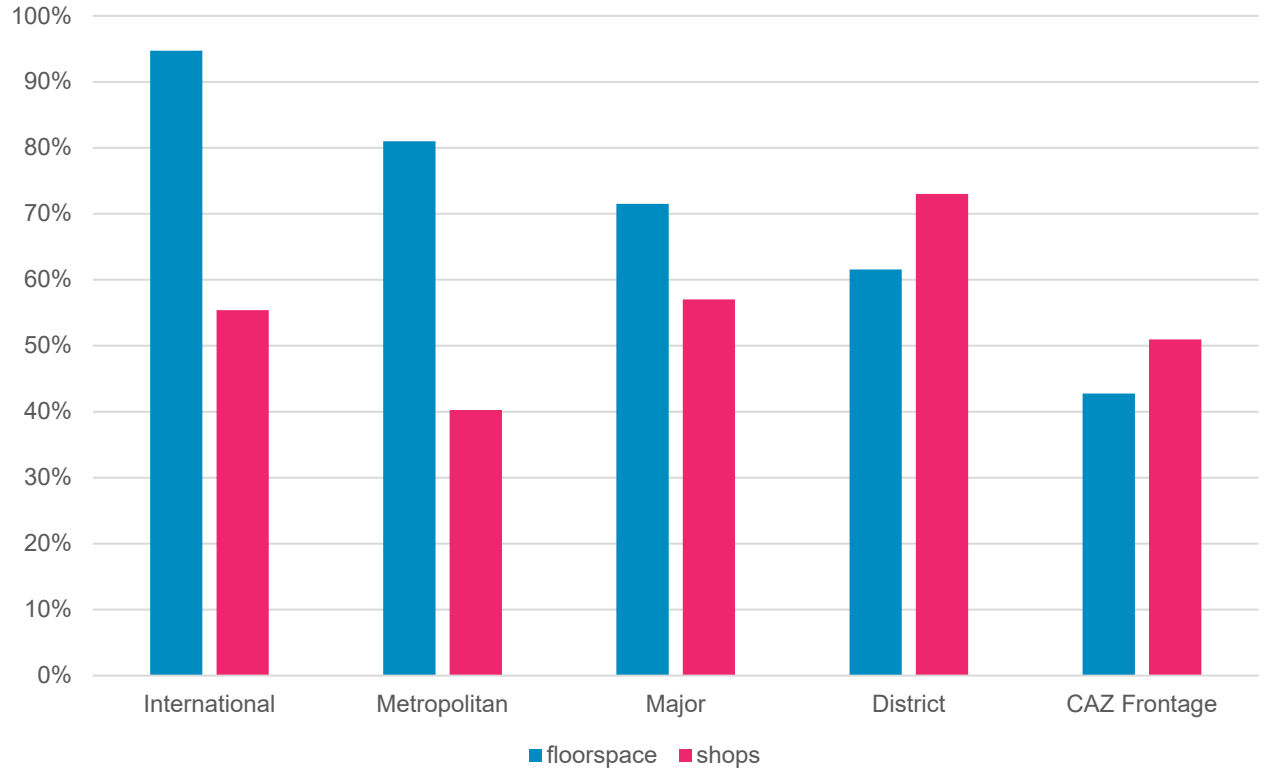
Map C.4: London's town centres by type



Source: GLA Town Centre Health Check

Town centre types have different characteristics. In 2016, 95% of retail space in International Centres was for comparison shops falling to 43% for the CAZ frontage, (Figure C.3). There are more similar figures for proportions of retail shops at 55% and 51% respectively. For, International Centres, Metropolitan and Major town centres the proportion of retail floorspace for comparison shops was higher than the proportion of comparison shops – this perhaps indicates that the larger comparison stores are in these areas.

Figure C.3: Comparison as a share of retail, floorspace and shops, 2016

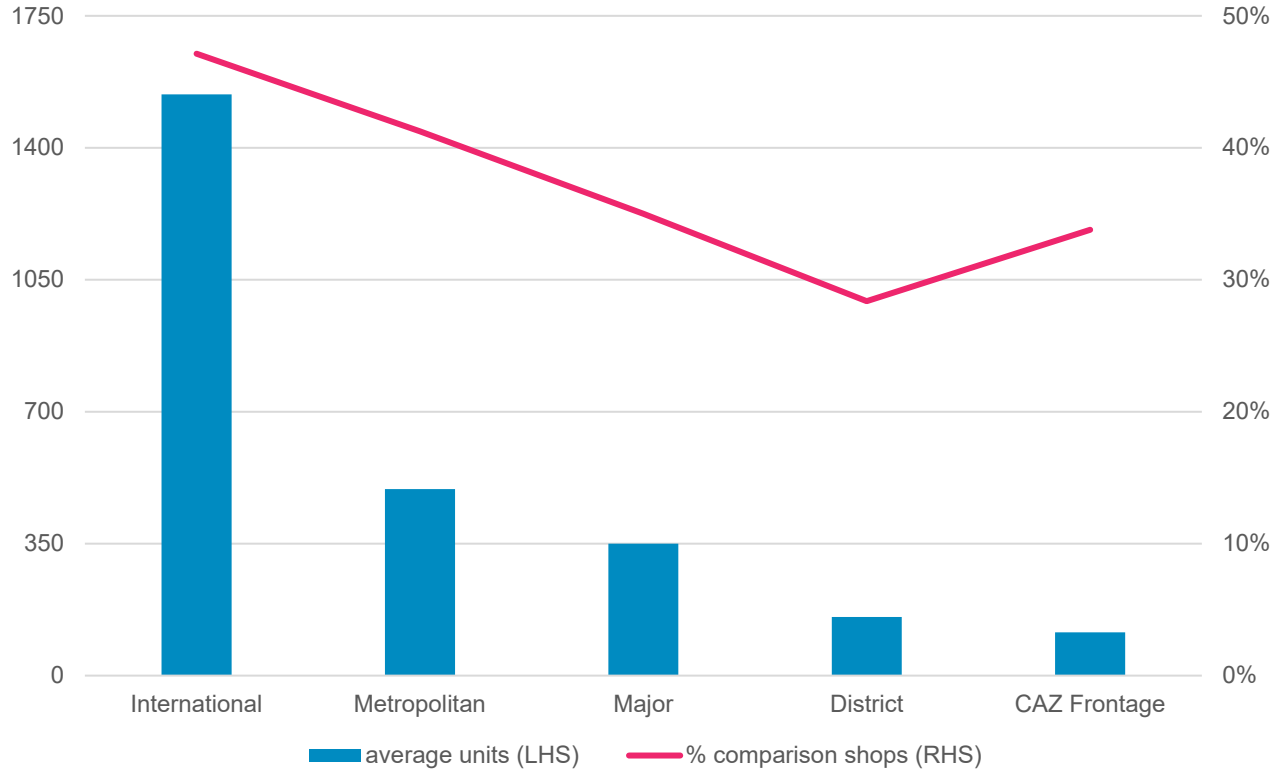


Source: Town Centre Health Check and GLA Economics analysis of LDC data

There is a clear gradient in the average number of units of each type of town centre, from over 1500 in the two International centres in 2019, to 115 for the CAZ Frontage, (Figure C.4)[98]. There is a relationship with the proportion of comparison shops from over 45% for International centres to under 30% for District centres. In contrast, a third of shops in CAZ Frontages are comparison shops.

[98] Figures C.1 and C.2 ignore the eight potential town centres, and the one Regional Shopping Centre covered by the Town Centre Health Check

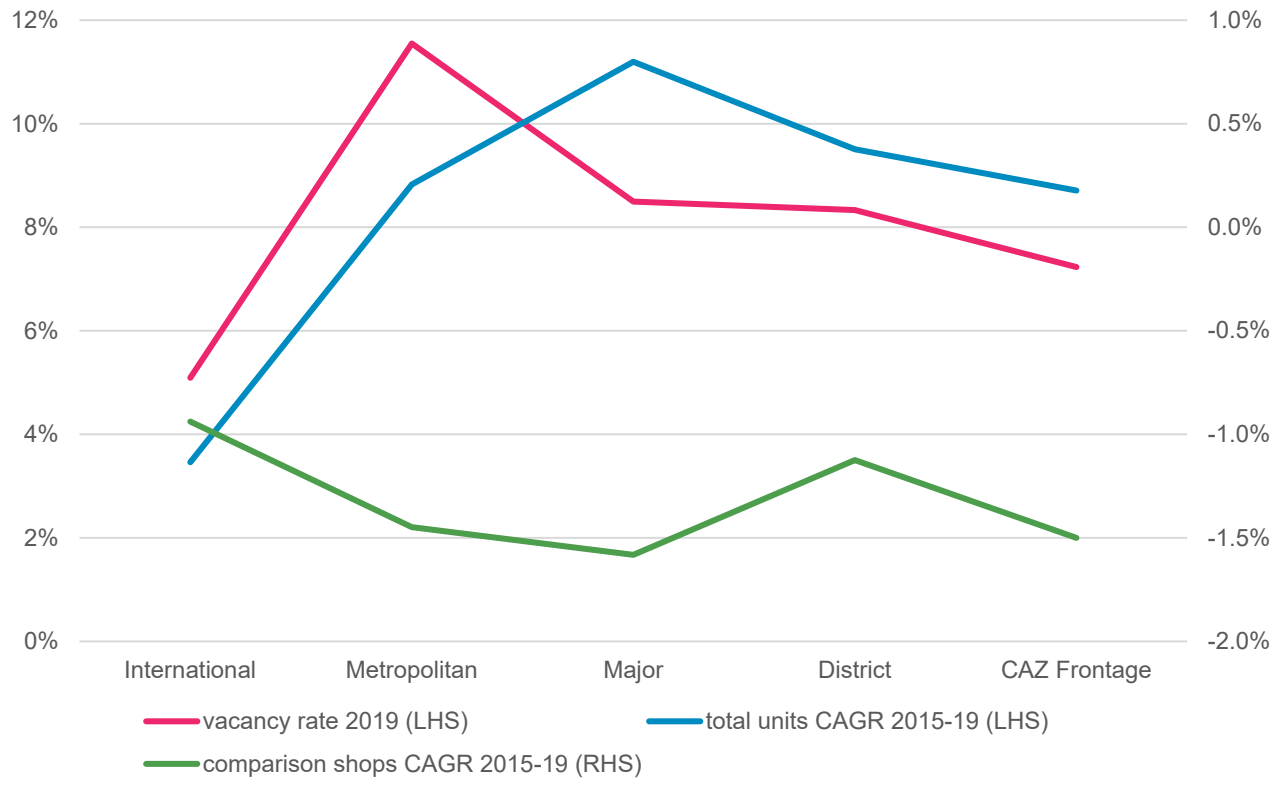
Figure C.4: Average units, and comparison goods share of shops 2019, by town centre type



Source: Town Centre Health Check and GLA Economics analysis of LDC data

There has been a growth in units, and a decline in comparison shops across town centre types – except for International centres where the decline in total units has been greater than that for comparison shops in proportionate terms. For the CAZ the growth in total units in the CAZ Frontages partially offsets the decline in International Centres. Metropolitan and Major town centres have suffered from a combination of high vacancy rates, growth in total units, and a decline in comparison shops, (Figure C.5).

Figure C.5: Annual growth rate in units and comparison shops 2015-19, and vacancy rate 2019, by town centre type



Source: Town Centre Health Check and GLA Economics analysis of LDC data

C.5 Changes in shops across areas of London

C.5.1 Overview and main findings

This section looks at trends in types of shops for local authorities, town centres, and high streets. Appendix B has considered broader influences on numbers of shops at a local authority level. There are some broad conclusions for the period 2015-19:

- The number of shops in an area is closely correlated with the number of comparison shops
- Some areas have seen growth in one or both of shops and comparison shops while others have seen a decline;
- Changes in the number of comparison shops are reasonably correlated with changes in the number of shops – this suggests that there are wider knock-on effects from a loss of comparison shops, or from a gain in comparison shops;
- The largest proportionate changes in the number of shops is not in the areas with the most shops – that is there is not polarisation in the numbers of shops;
- There is no relationship between numbers of shops and vacancy rates.

The one exception is that for town centres the change in shops is not correlated with changes in the number of comparison shops. This suggests that town centres have been successful in diversifying their appeal to shoppers.

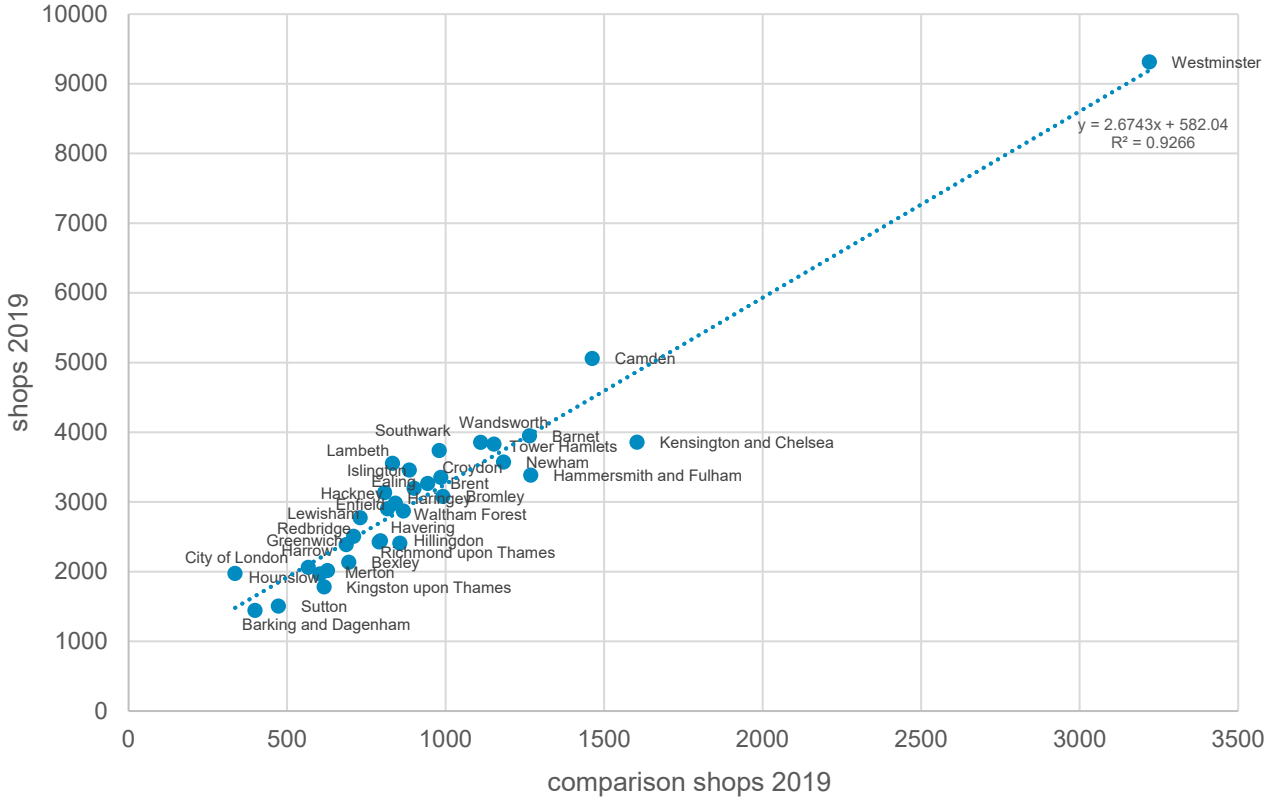
Each figure includes a trendline and a value for the R^2 coefficient. This measures the goodness-of-fit of data to a trendline. Values of 1 would indicate that the model exactly explained the underlying data, while

values of 0 would indicate no explanatory power. Values of R^2 of around 0.5 and higher suggest some explanatory power.

C.5.2 Changes in shops for local authorities

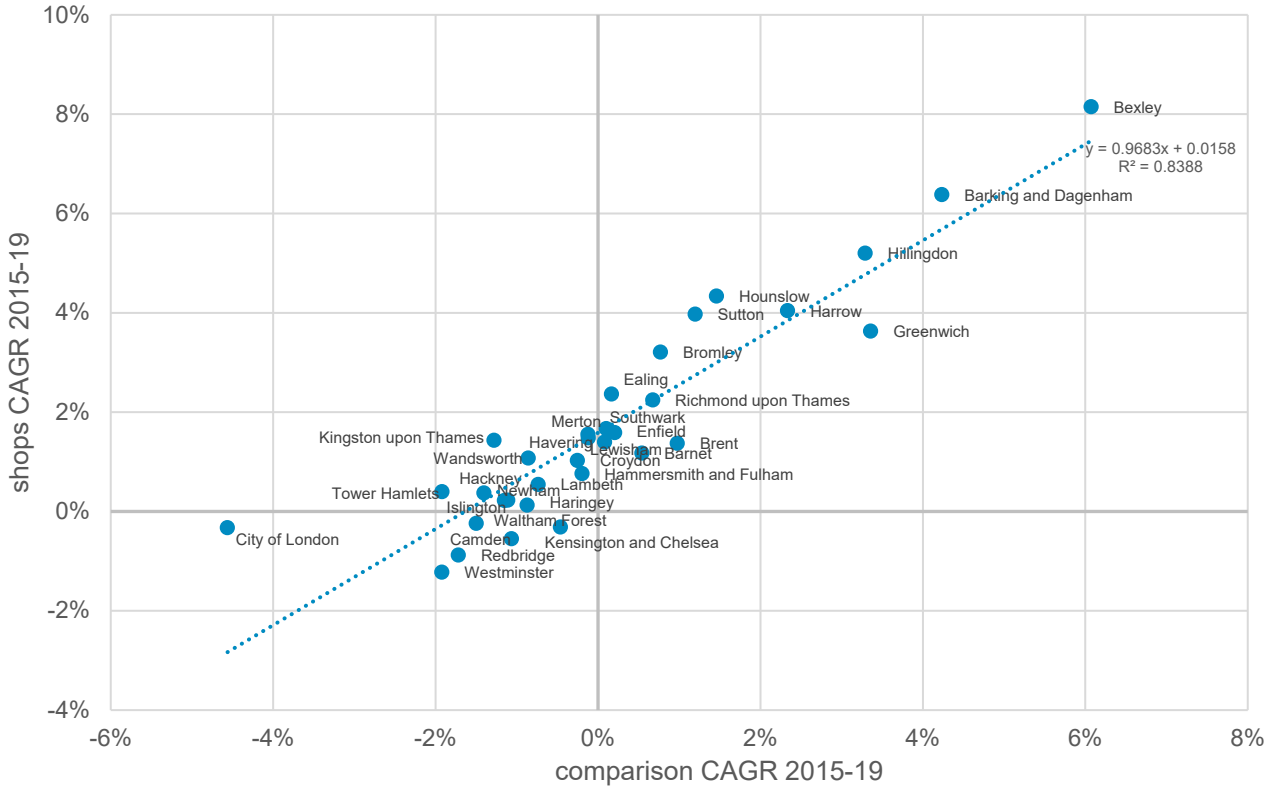
Figures C.6 to C.9 present by London local authority:

Figure C.6: Shops and comparison shops 2019, by London local authority



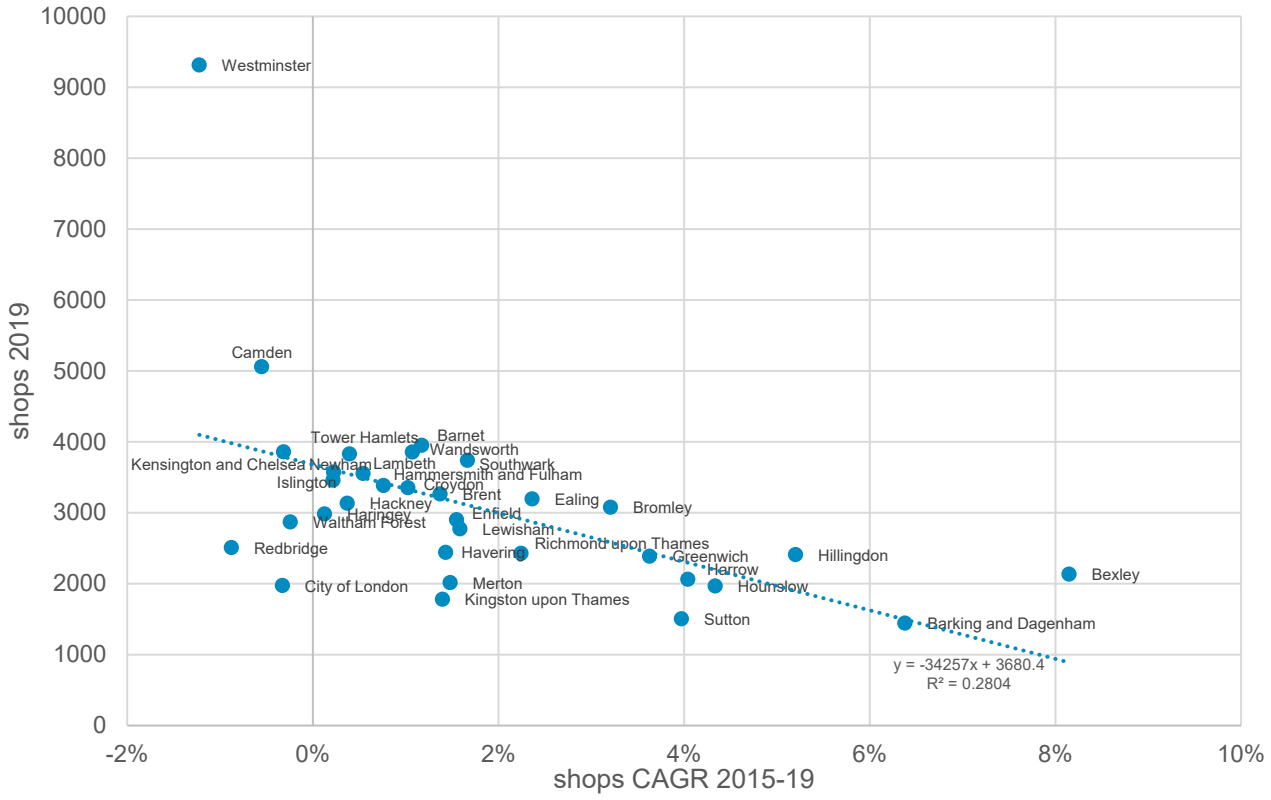
Source: GLA Economics analysis of LDC data

Figure C.7: Annual change in shops and comparison shops 2015-2019, by London local authority



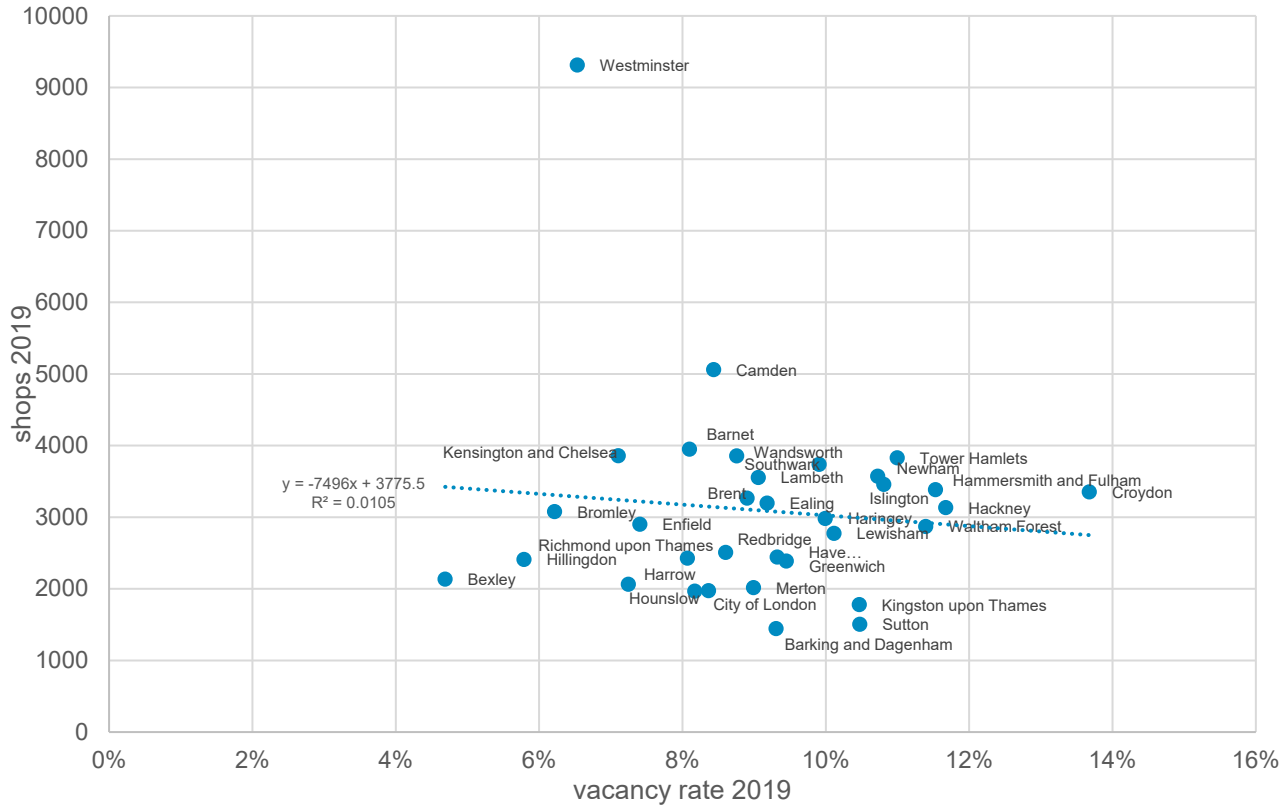
Source: GLA Economics analysis of LDC data

Figure C.8: Shops in 2019 and change in shops 2015-2019, by London local authority



Source: GLA Economics analysis of LDC data

Figure C.9: Shops and vacancy rate 2019, by London local authority

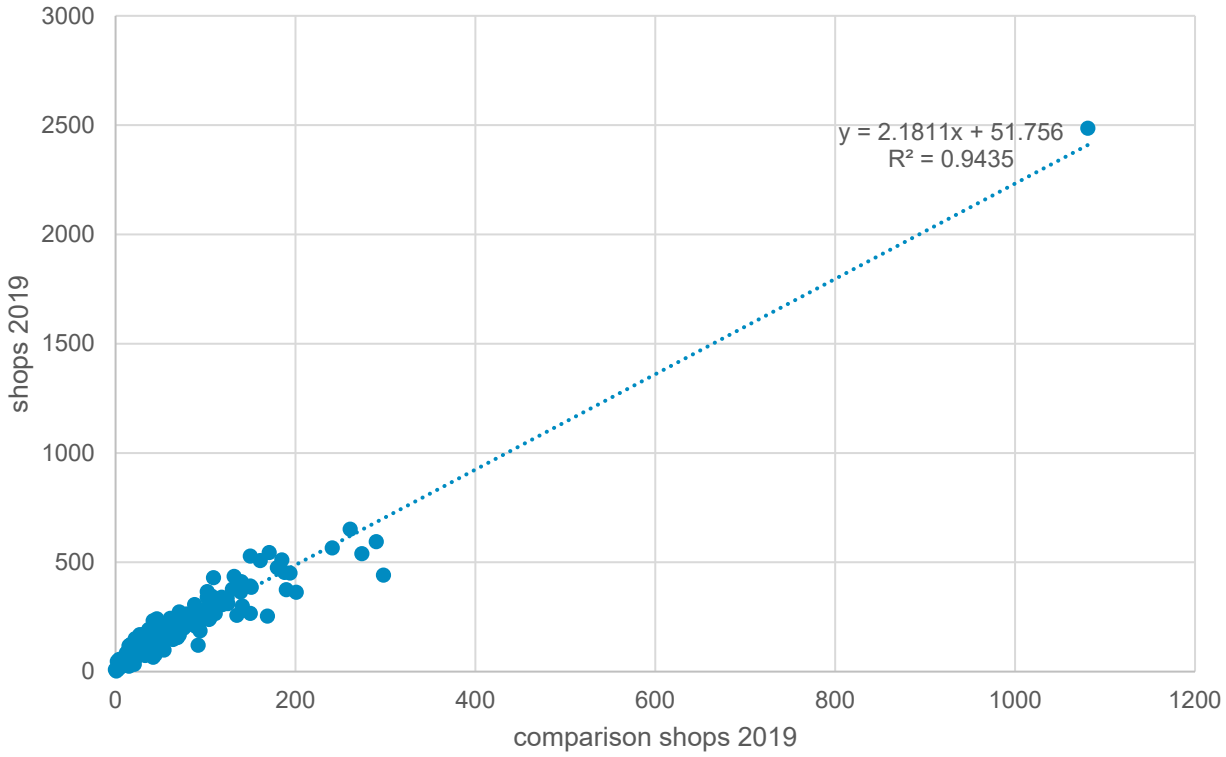


Source: GLA Economics analysis of LDC data

C.5.3 Changes in shops for town centres

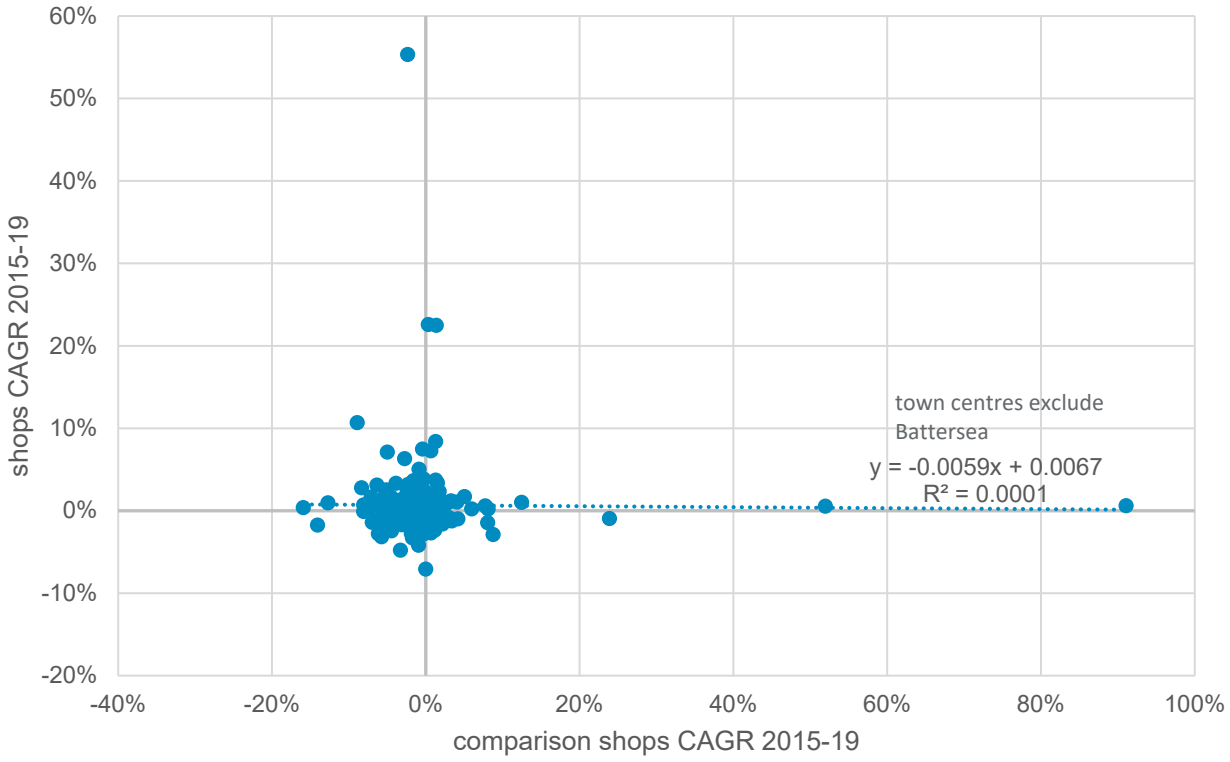
Figures C.10 to C.13 present by London town centre:

Figure C.10: Shops and comparison shops 2019, by London town centre



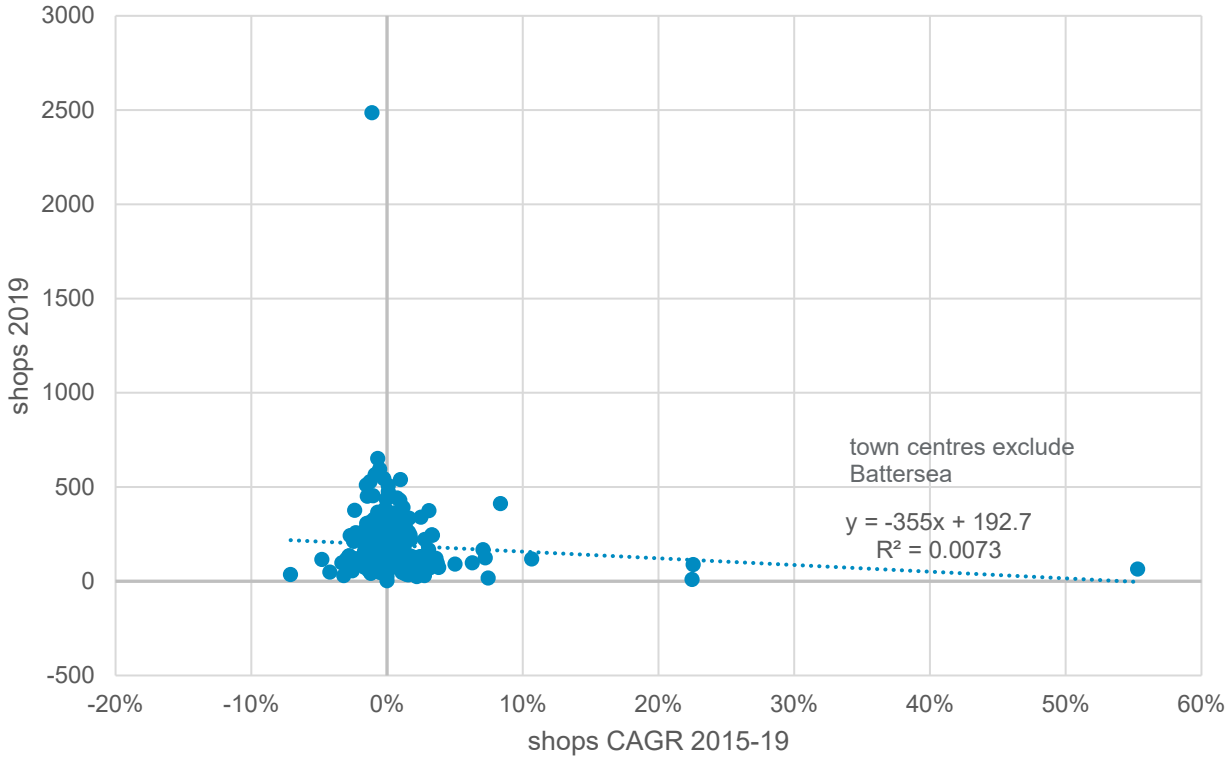
Source: GLA Economics analysis of LDC data

Figure C.11: Annual change in shops and comparison shops 2015-2019, by London town centre



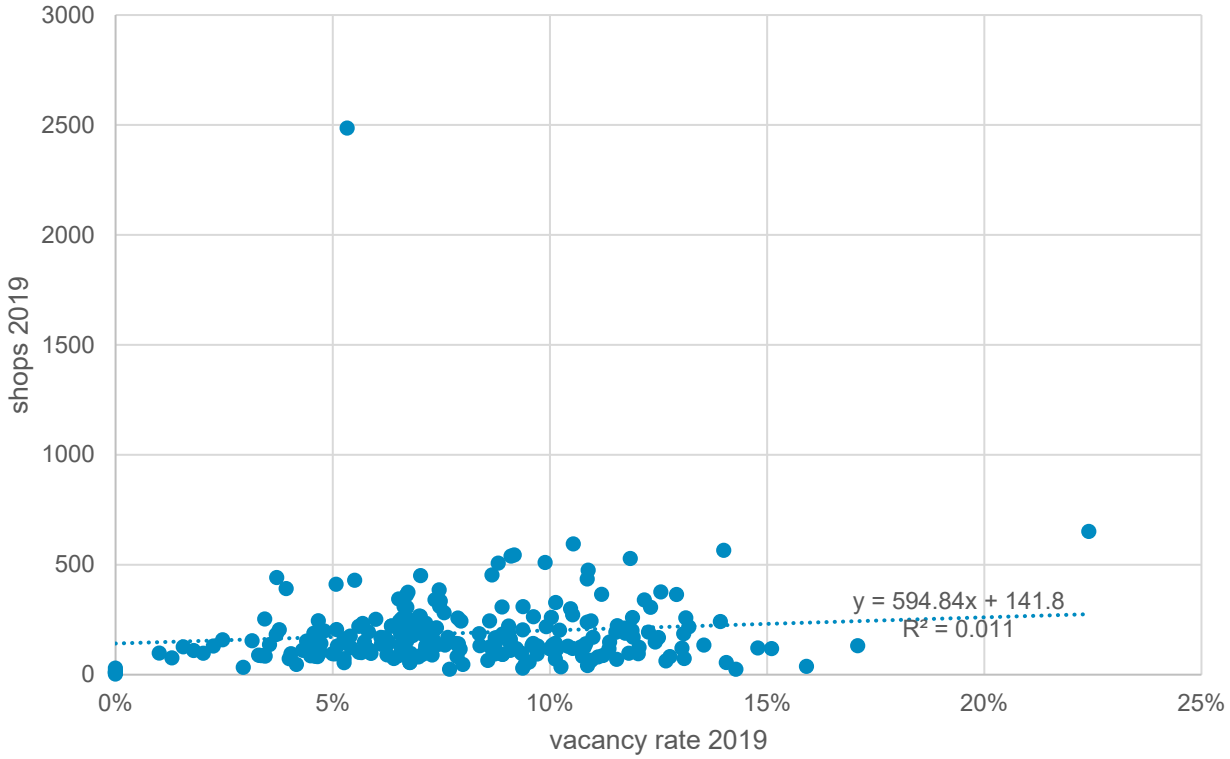
Source: GLA Economics analysis of LDC data

Figure C.12: Shops in 2019 and change in shops 2015-2019, by London town centre



Source: GLA Economics analysis of LDC data

Figure C.13: Shops and vacancy rate 2019, by London town centre

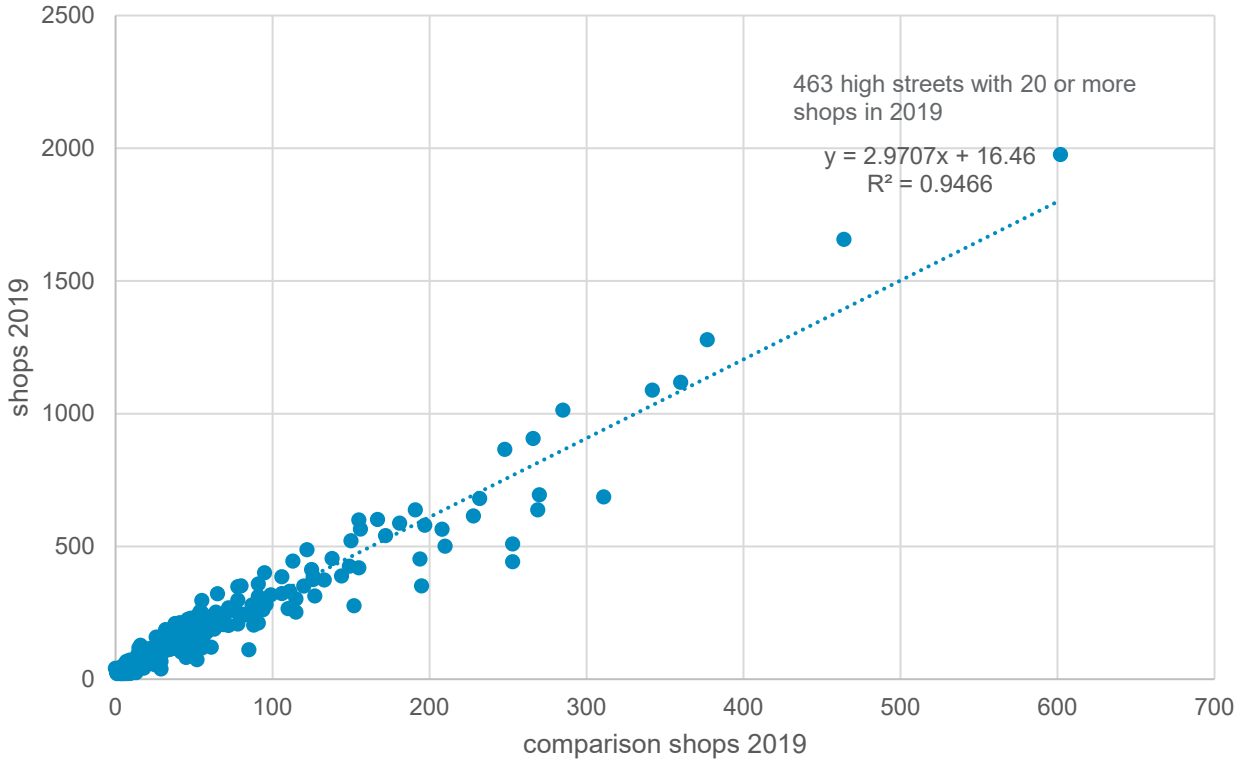


Source: GLA Economics analysis of LDC data

C.5.4 Changes in shops for high streets

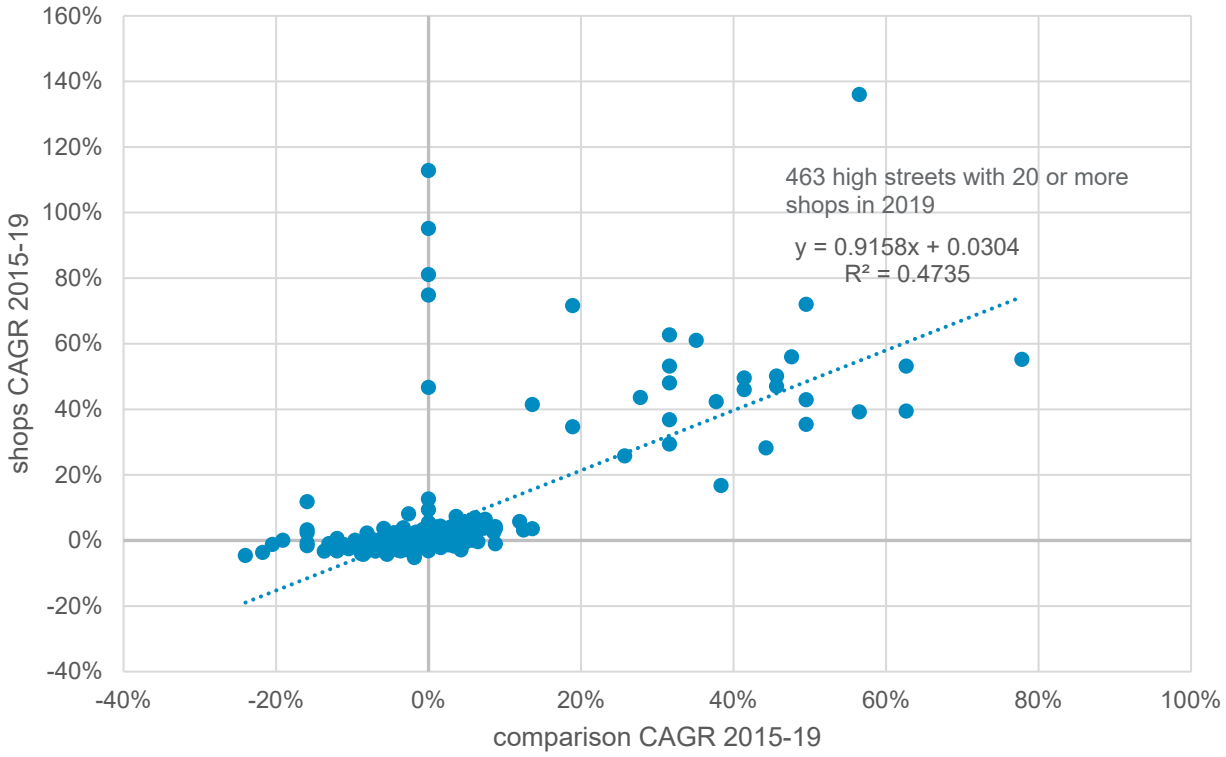
Figures C.14 to C.17 present by London high street:

Figure C.14: Shops and comparison shops 2019, by London high street



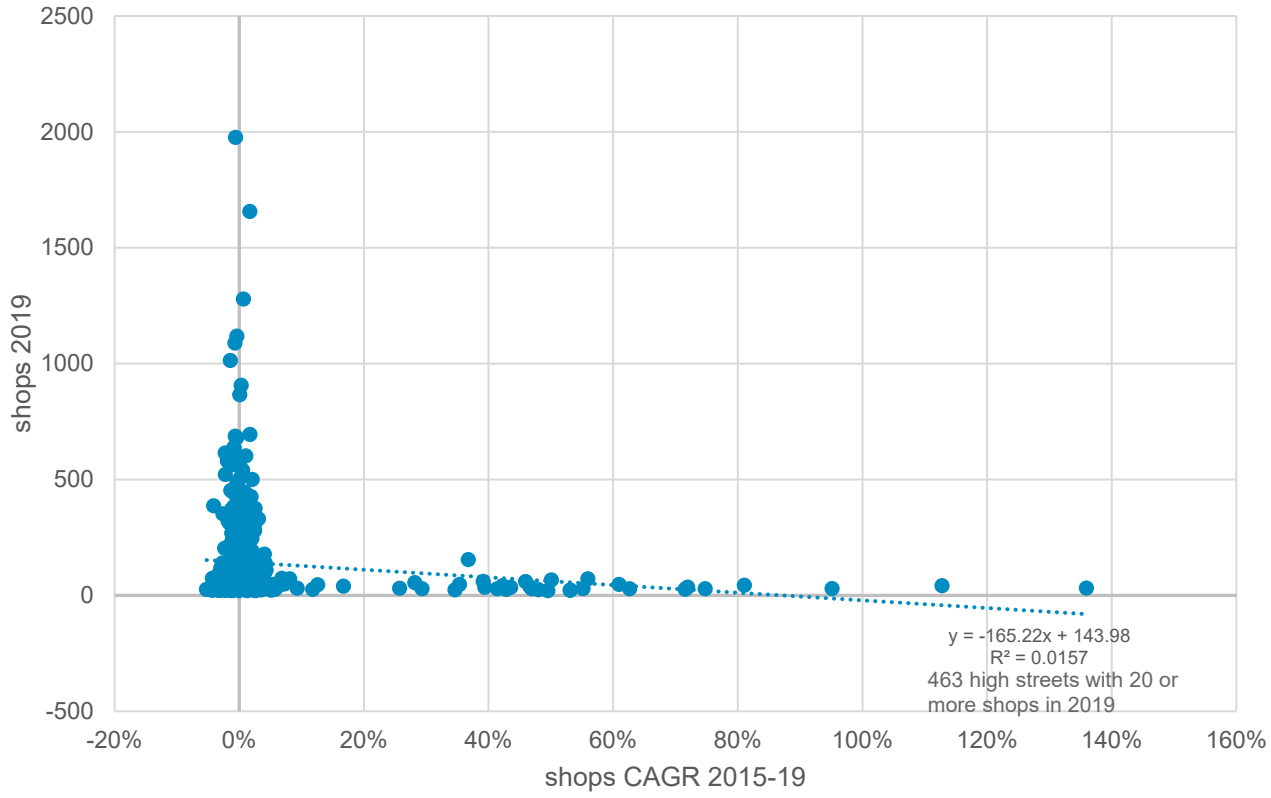
Source: GLA Economics analysis of LDC data

Figure C.15: Annual change in shops and comparison shops 2015-2019, by London high street



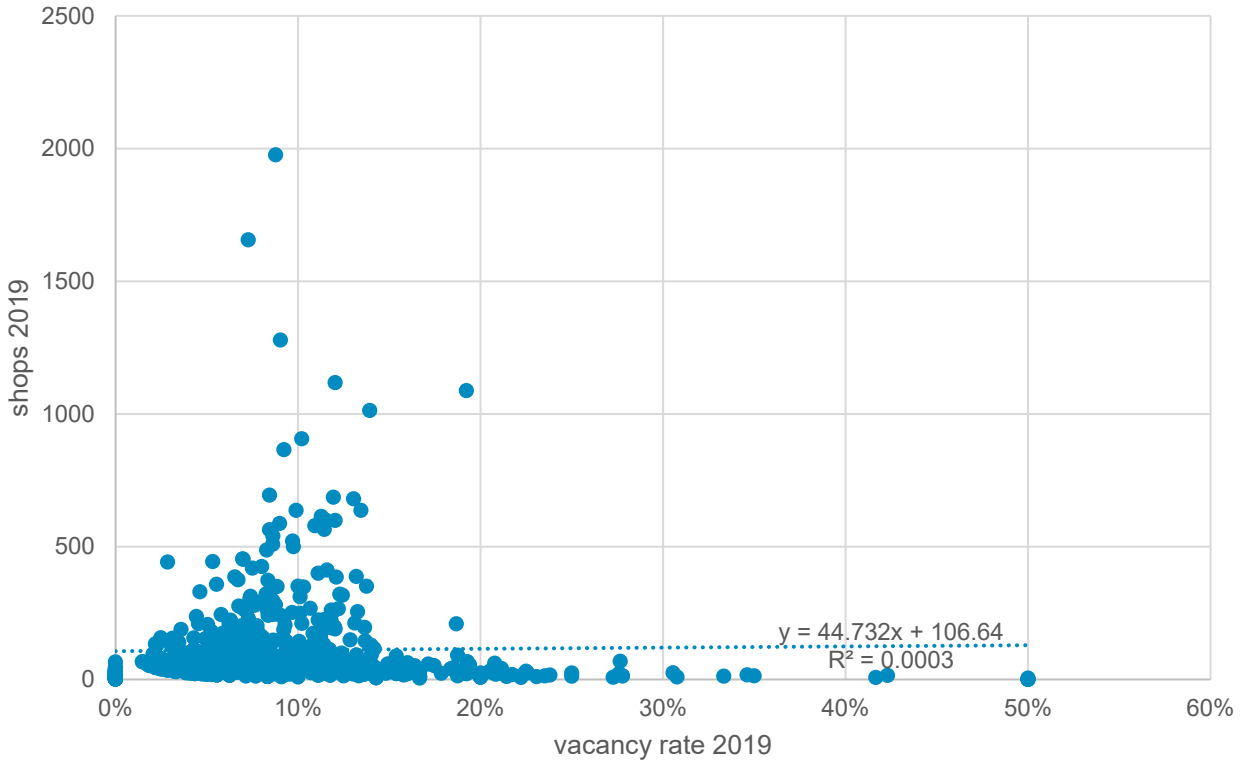
Source: GLA Economics analysis of LDC data

Figure C.16: Shops in 2019 and change in shops 2015-2019, by London high street



Source: GLA Economics analysis of LDC data

Figure C.17: Shops and vacancy rate 2019, by London high street



Source: GLA Economics analysis of LDC data

Appendix D – The evolution of off-street shopping developments and chains

D.1 Overview and main findings

This appendix considers two ways in which the market for retail shops has developed. It considers this through the lenses of off-street shopping developments and retail and leisure chains, with a separate section for each.

Off-street shopping developments:

- These developments account for less than 15% of the shops in London but have contributed over 30% of the growth in shops in London since 2013;
- There has been growth in the numbers of most sizes of development;
- The growth in these shopping developments has mostly been outside London's main shopping and other areas with the exception of BIDs;
- It is the developments of 1-5 shops which are most likely to be outside the main shopping and other areas;
- The rate of growth has been accelerating across London, and all its main shopping and other areas;
- The larger off-street shopping developments tend disproportionately to be in London's main shopping and other areas except for the CAZ.

Retail and leisure chains

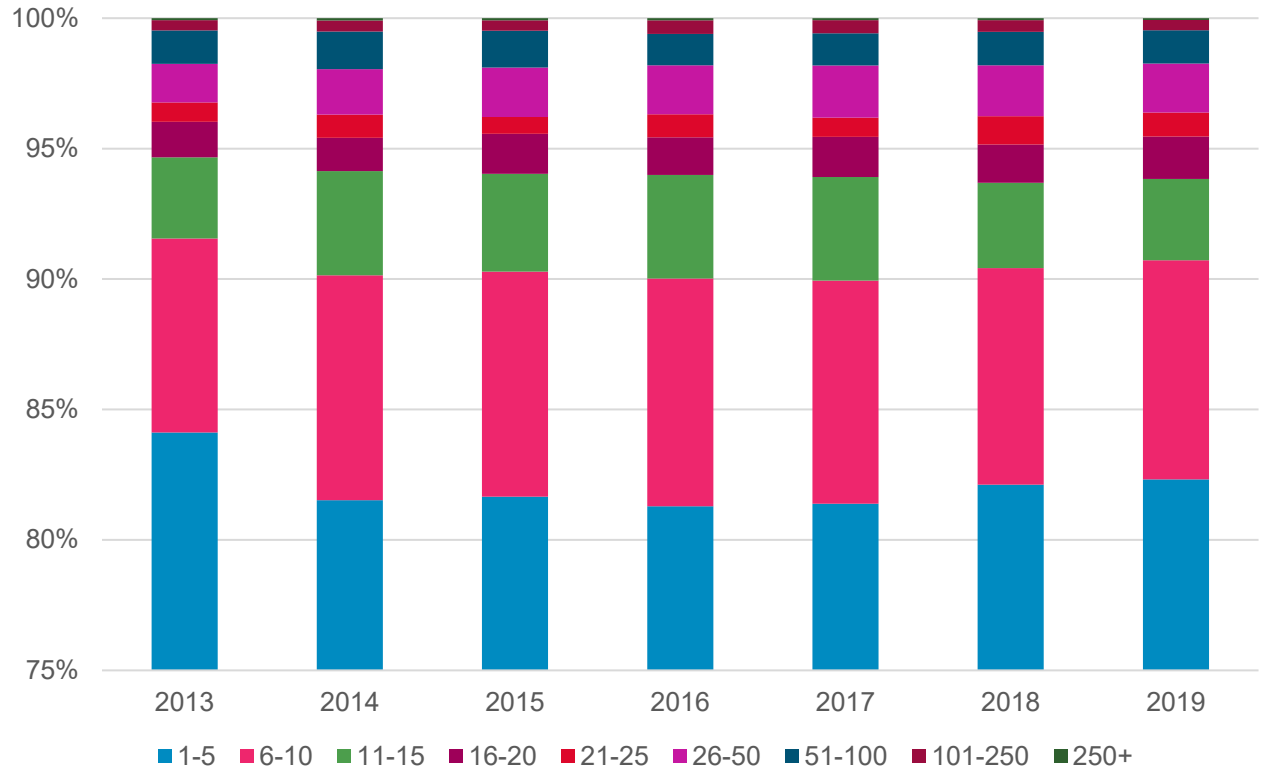
- The vast majority of shops in London are not part of chains;
- Over 25% of shops in London are in a chain with more than 5 shops;
- There has been growth across all chains in both occurrences and shops, except for chains with 16-20 shops, and chains with over 100 shops;
- Leisure shops are disproportionately represented in chains with over 100 shops, while comparison shops are underrepresented in chains of this size;
- There has been a growth in comparison shops in chains with more than 100 shops despite the overall fall in numbers of this category of shops since 2015.

D.2 Off-street shopping developments

This analysis defines an off-street shopping development as one which is self-contained, and where the shops are not facing a street. So, it includes arcades, farmer's markets, and shops in stations as well as shopping centres and retail parks. The data comes from the LDC, and so information on floorspace is not available to provide another measure of size. The nature of a development is ambiguous from its size. For example, larger developments may be in shopping centres or retail parks, although mainline stations can also be substantial developments, and some farmer's markets are not insignificant. These developments have risen from 13.4% of shops in London in 2013 to 14.8% in 2019. It accounts for 31% of the growth in shop numbers in London over this period.

The vast majority of these developments are small. Over 80% have fewer than 5 shops, and over 90% have fewer than 10 shops, (Figure D.1).

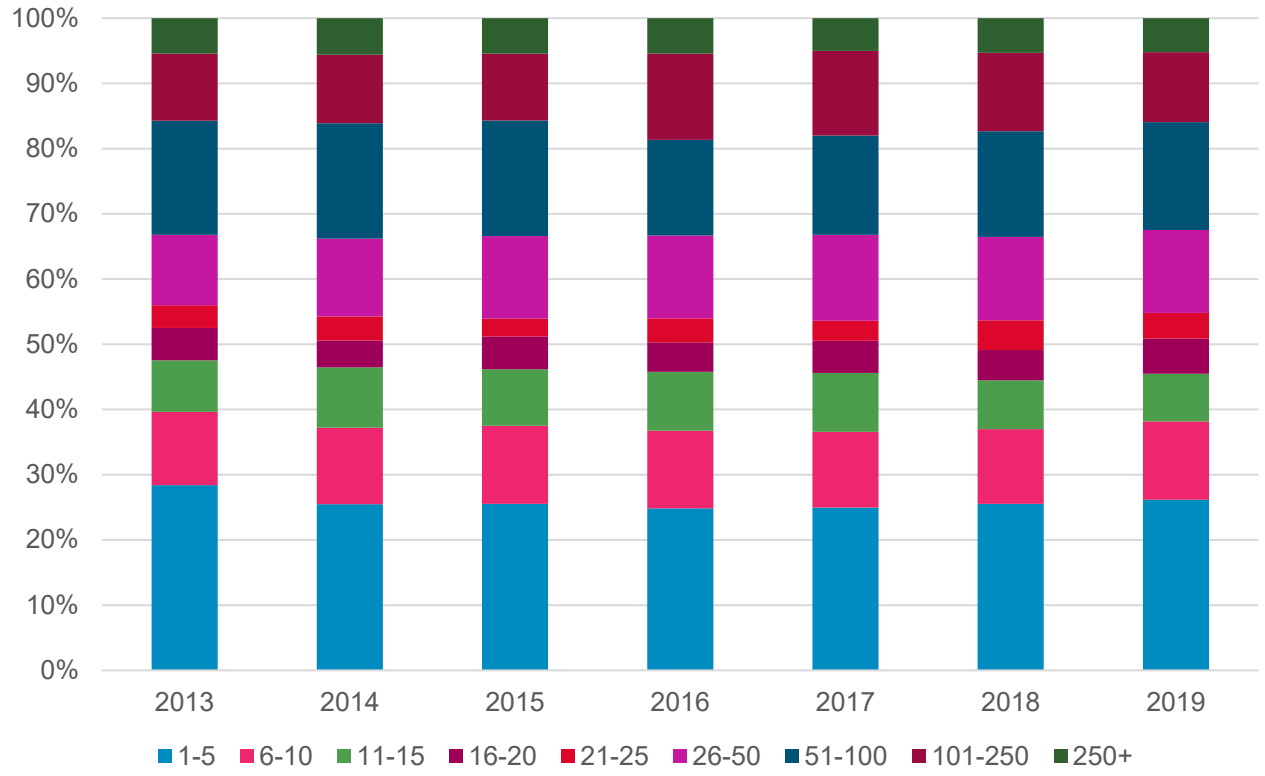
Figure D.1: Distribution of occurrences of off-street shopping developments across London by size of development, 2013 to 2019



Source: GLA Economics analysis of LDC data

Unsurprisingly the larger developments have more shops. Developments with fewer than 5 shops account for less than 30% of shops, and developments with fewer than 10 shops account for less than 40% of shops, (Figure D.2).

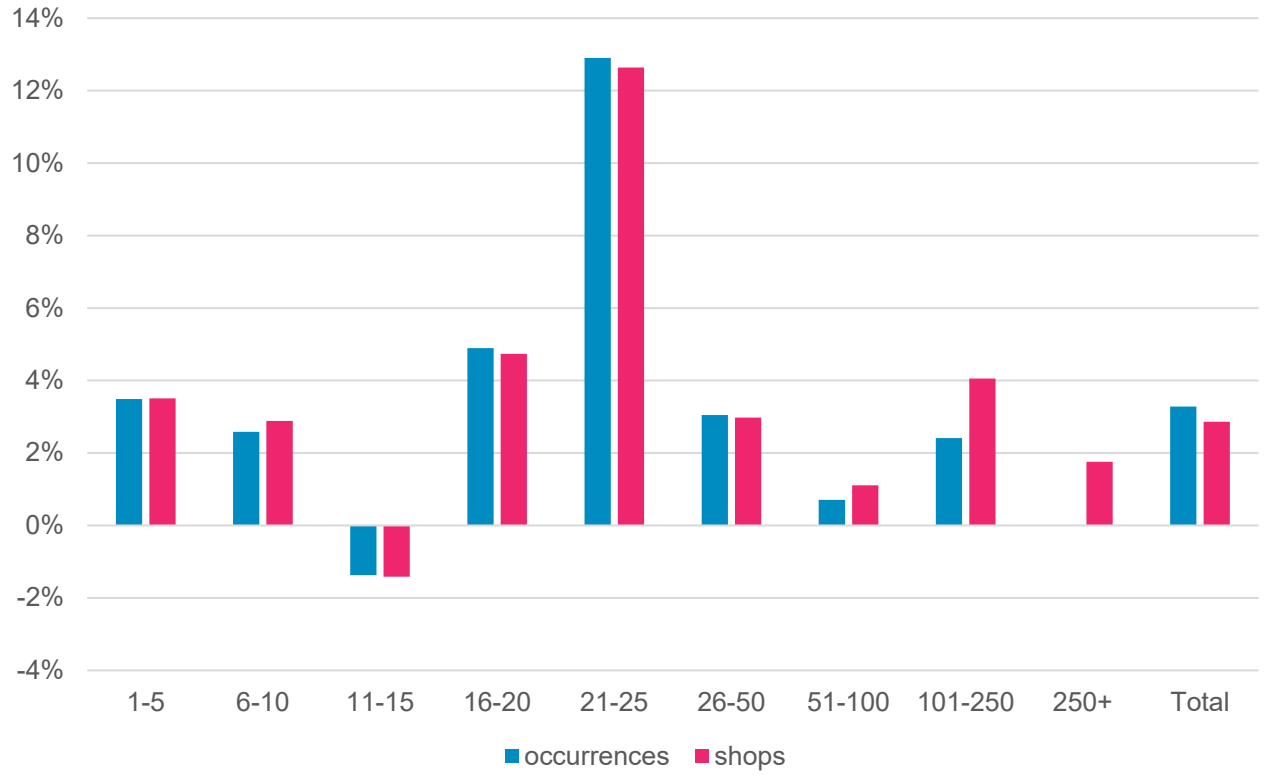
Figure D.2: Distribution of shops in off-street shopping developments across London by size of development, 2013 to 2019



Source: GLA Economics analysis of LDC data

There has been growth across all sizes of development in both occurrences and shops, except for developments with 11-15 shops. There have been no new developments with over 250 shops. There has been uneven growth across sizes of development although the strongest growth has been in developments with between 16 and 25 shops, (Figure D.3).

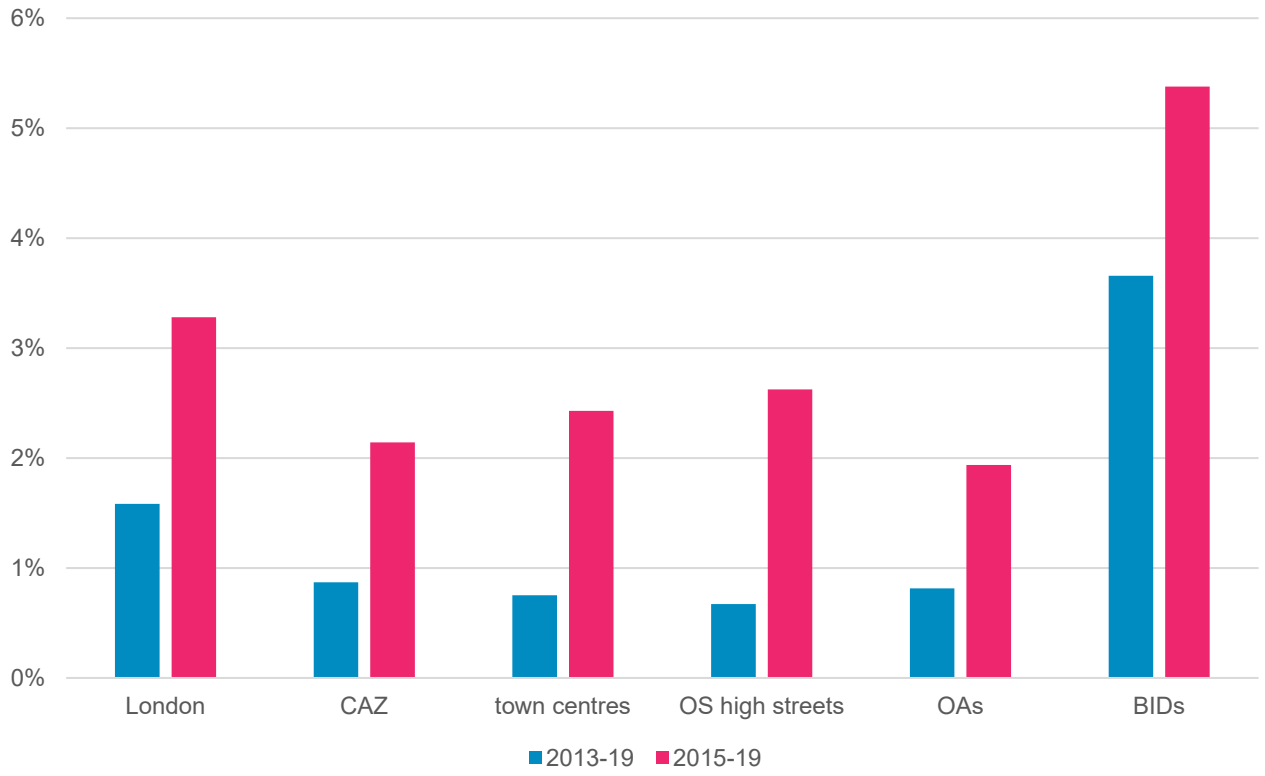
Figure D.3: Annual growth rate by size of London off-street shopping development in occurrences and shops, 2015-19



Source: GLA Economics analysis of LDC data

The growth in these shopping developments has mostly been outside London's main shopping and other areas with the exception of BIDs, (Figure D.4). The rate of growth has been accelerating across London, and all of these areas.

Figure D.4: Annual growth rate in occurrences of off-street shopping developments for London's main shopping and other areas, 2013-19 and 2015-19



Source: GLA Economics analysis of LDC data

There are off-street shopping developments of all sizes across all parts of London. The larger of these developments tend disproportionately to be in London's main shopping and other areas. So, for example, half of developments with 250 shops or more are in town centres while overall only 30% of developments are in town centres. It is the developments of 1-5 shops which are most likely to be outside the main shopping and other areas. The exception is the CAZ which is underrepresented in such developments of a range of sizes, and particularly those with more than 50 shops, (Table D.1).

Table D.1: Shares of off-street shopping developments by main shopping and other area and size of development, 2019

	CAZ	Town Centres	High Streets	OS High Streets	OAs	BIDs
1-5	24%	27%	36%	38%	36%	18%
6-10	18%	35%	40%	43%	38%	16%
11-15	13%	44%	49%	53%	42%	20%
16-20	28%	50%	52%	65%	48%	24%
21-25	15%	50%	69%	31%	38%	19%
26-50	25%	57%	51%	57%	57%	36%
51-100	14%	67%	64%	58%	44%	33%
101-250	9%	55%	64%	64%	55%	27%
250+	0%	50%	0%	0%	100%	0%
Total	**23%**	**30%**	**38%**	**40%**	**37%**	**19%**

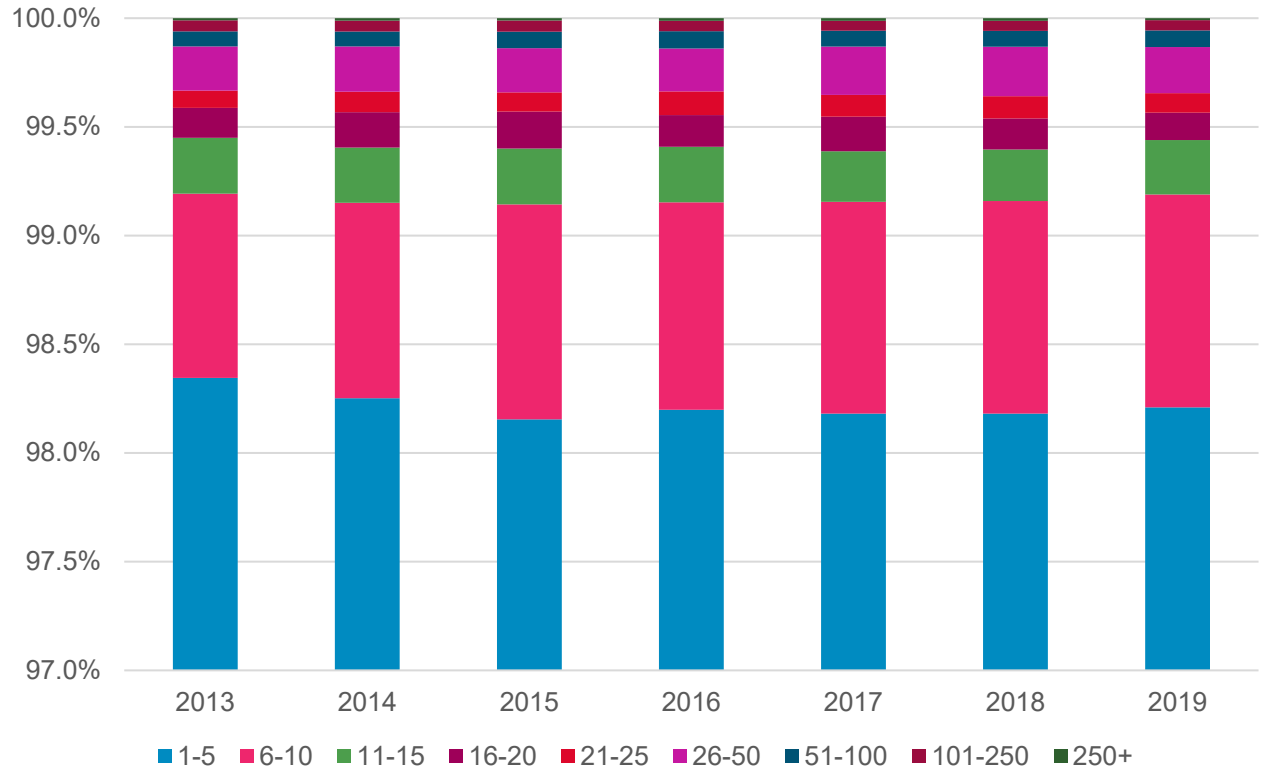
Source: GLA Economics analysis of LDC data

D.3 Retail and leisure chains

This section considers chains of shops in London, and the figures are for chains in London. Many of these chains will have a presence outside London, and beyond the UK.

The vast majority of shops in London are not part of chains. Over 98% of groupings of shops are not part of a chain or are part of a chain with fewer than 5 shops, while over 99% are in a similar position with fewer than 10 shops, (Figure D.5).

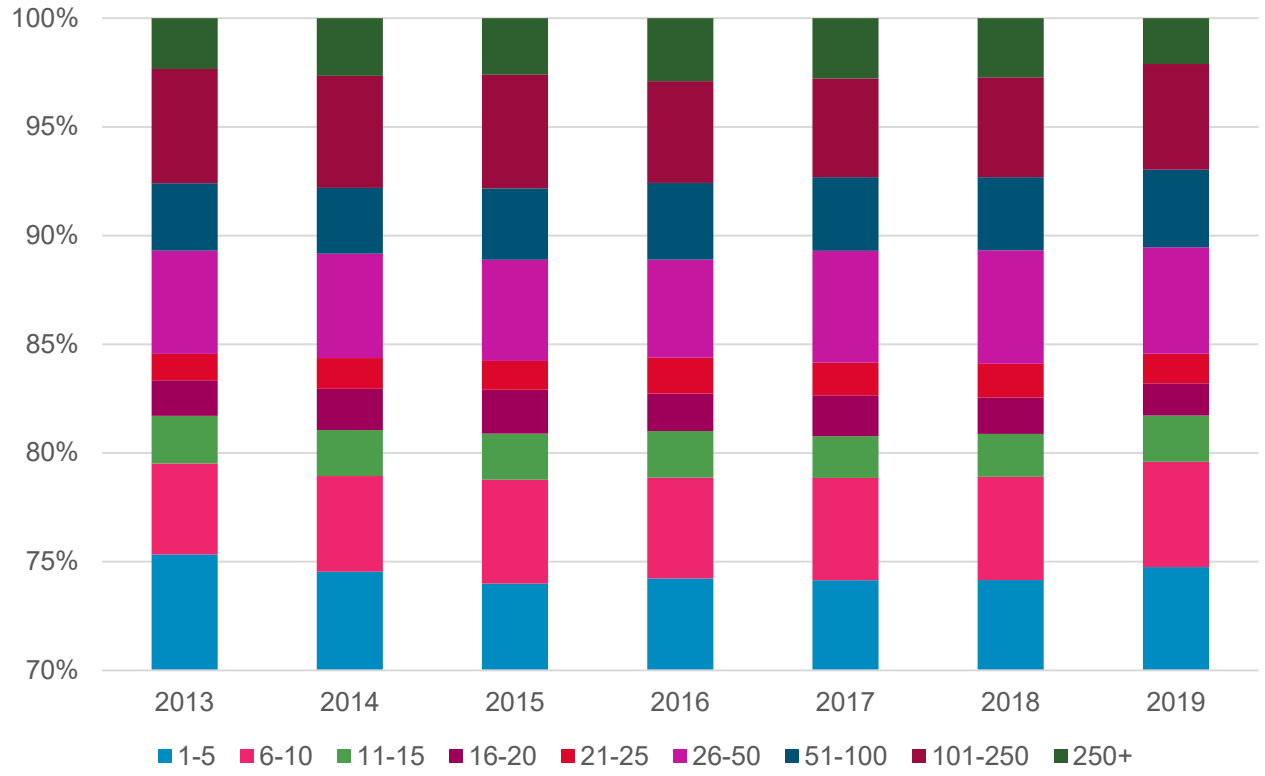
Figure D.5: Distribution of occurrences of retail and leisure chains across London by size of development, 2013 to 2019



Source: GLA Economics analysis of LDC data

Over 25% of shops in London are in a chain with more than 5 shops, over 20% of shops are in chains with more than 10 shops, and over 15% of shops are in chains with more than 25 shops in 2019, (Figure D.6).

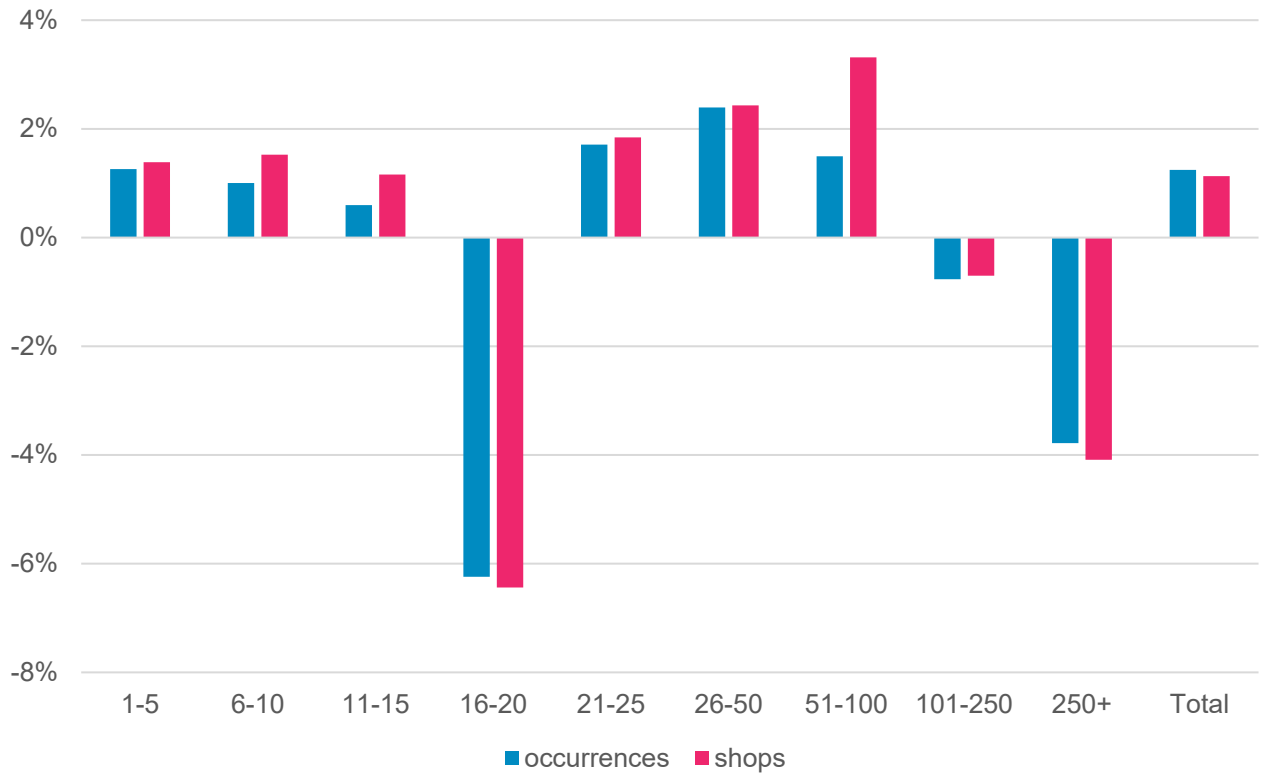
Figure D.6: Distribution of shops in retail and leisure chains across London by size of development, 2013 to 2019



Source: GLA Economics analysis of LDC data

There has been growth across all chains in both occurrences and shops, except for chains with 16-20 shops, and chains with over 100 shops. For chains with up to 100 shops in broad terms there has been stronger growth in the larger chains, (Figure D.7).

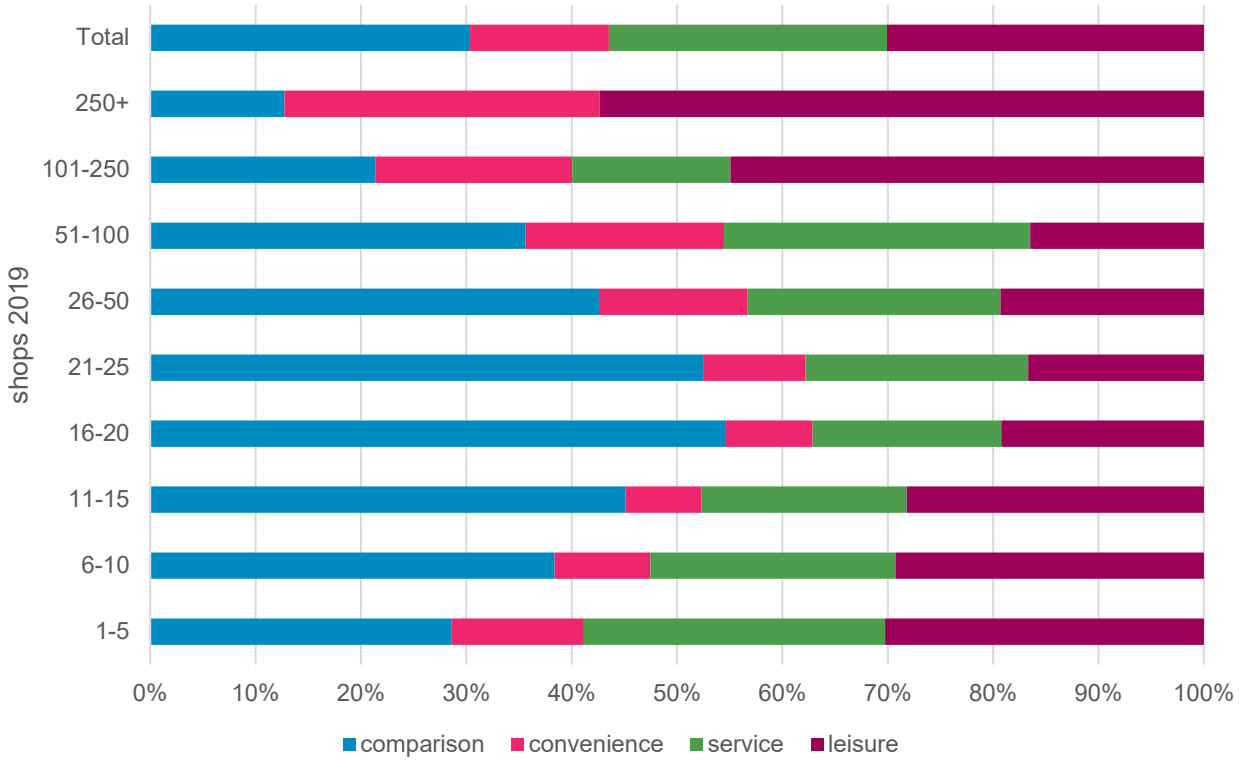
Figure D.7: Annual growth rate by size of London retail and leisure chains in occurrences and shops, 2015-19



Source: GLA Economics analysis of LDC data

In 2019, leisure and comparison shops each made up around 30% of shops in London. Leisure shops are disproportionately represented in chains with over 100 shops, while comparison shops are underrepresented in chains of this size, (Figure D.8).

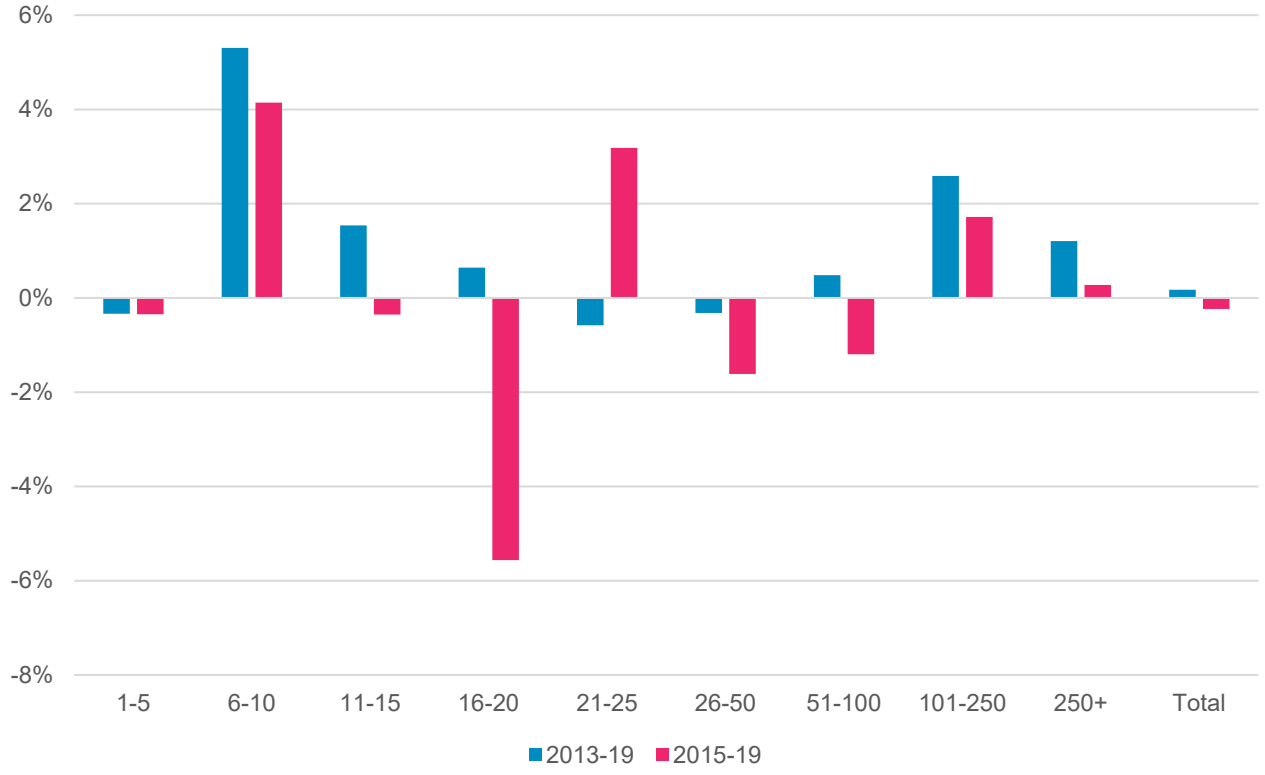
Figure D.8: Distribution of category of shops by size of chain, London, 2019



Source: GLA Economics analysis of LDC data

One of the focuses of this paper has been on comparison shops where the number of shops has been declining since 2015. There is a varied experience by size of chain, but notably there has been a growth in shops in chains with more than 100 shops, (Figure D.9).

Figure D.9: Annual growth rate by size of London comparison goods chains in occurrences and shops, 2015-19



Source: GLA Economics analysis of LDC data

Appendix E – How the high street is evolving

E.1 Overview and main findings

The ONS has released tranches of analysis in 2019 and 2020[99] on the evolution of high streets using the OS definition. This appendix provides an assessment for London.

It concludes that:

- High streets are more important in London than other regions in Britain as places to live and work because:
  - per high street more people live or work there;
  - relatively more people in the region live or work there.
- Population and employment is growing faster on high streets than elsewhere in Britain:
  - For every London local authority the proportion of the population living near high streets is greater than for Britain as a whole;
  - Across most London local authorities employment growth is faster on high streets than elsewhere.
- At the same time retail employment is relatively less important than in Britain, and across London local authorities its share of high street employment is declining;
- In its place, the employment share of the leisure sector in the form of Accommodation and food services is rising.

This appendix has sections on:

- The importance of high streets in London;
- The contribution of the retail goods sector to the high street.

E.2 The importance of high streets in London

High streets are more important in London than elsewhere in Britain as a place to live and work, (Figure E.1). They account for:

- 17% of the high streets in Britain, followed by the South East with 13%, and the North West with 12%;
- 38% of the population of London live near high streets (within 200m) compared with 16% for Britain and the North West, and less for other countries and regions;
- 28% of London's employment is on high streets compared with 14% for Britain, 13% for the North West, and less for other countries and regions.

This, in part. reflects that London is the only country or region of Britain that is entirely urban[100]. There are corresponding results at a high street level, (Figure E.2):

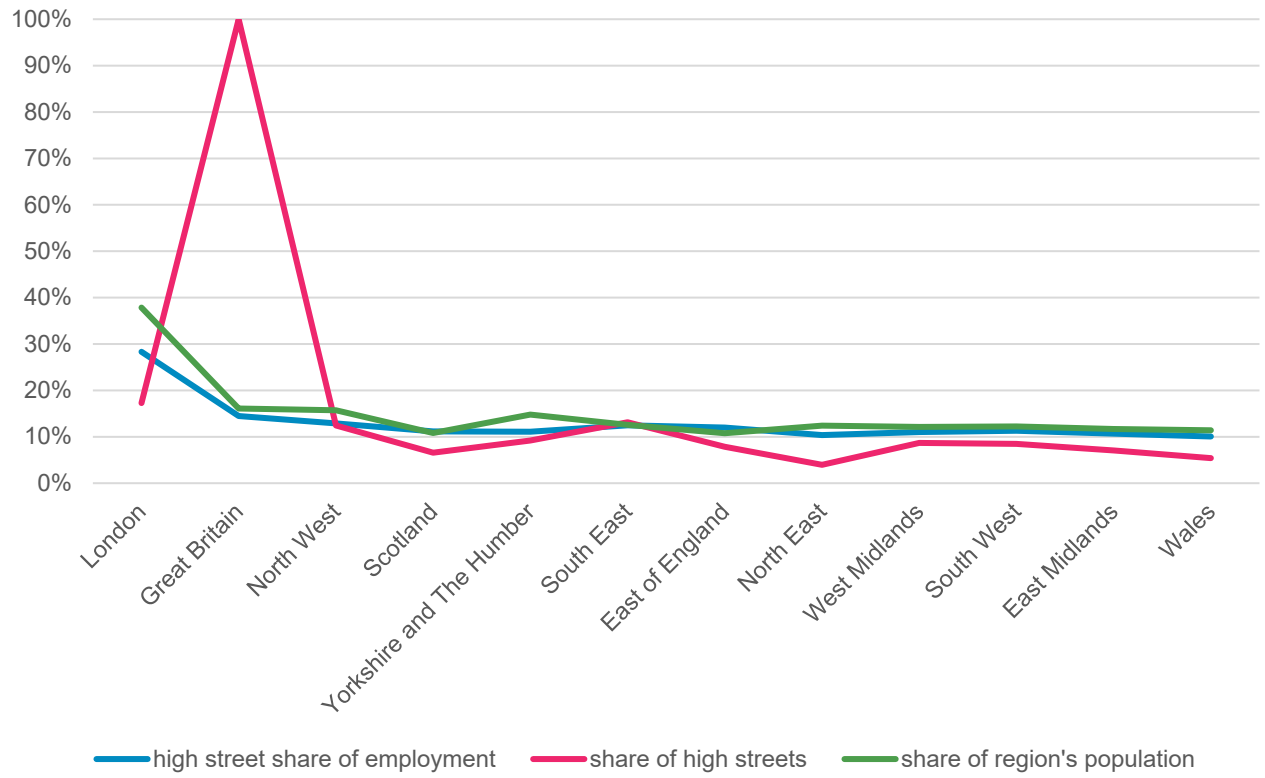
- Population per high street:

[99] See High streets in Great Britain 2019 and High streets in Great Britain 2020

[100] For more information on the characteristics of the regions of England and Wales see Appendix A of Transport expenditure in London 2020 | London City Hall

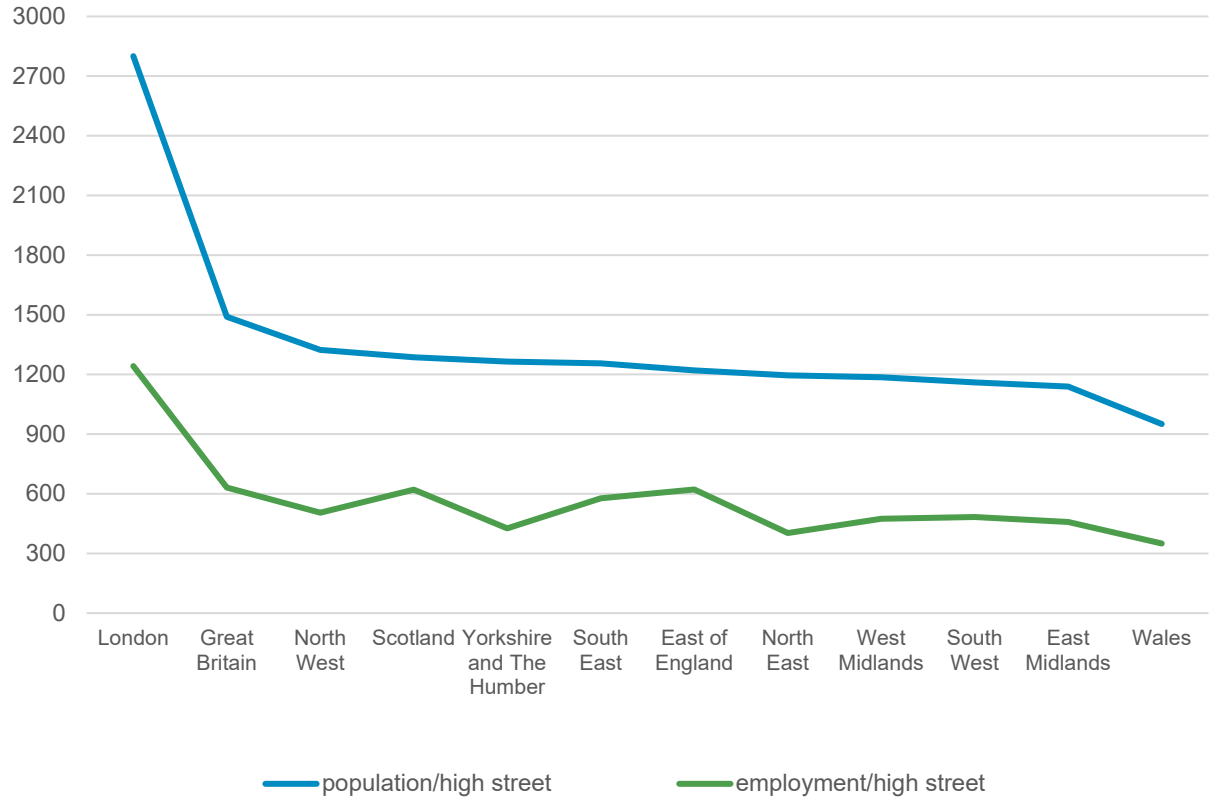
  - in London is 2800;
  - in Britain is 1490;
  - in the North West is 1325, and is less in other countries and regions.
- Employment per high street:
  - in London is 1240;
  - in Britain is 630;
  - in Scotland and East of England is 620, and is less in other countries and regions.

Figure E.1: Population and employment characteristics of OS high streets by country and region of GB, 2018



Source: GLA Economics analysis of ONS 2019 and 2020 releases of High Streets in Great Britain, and ONS mid-year population estimates

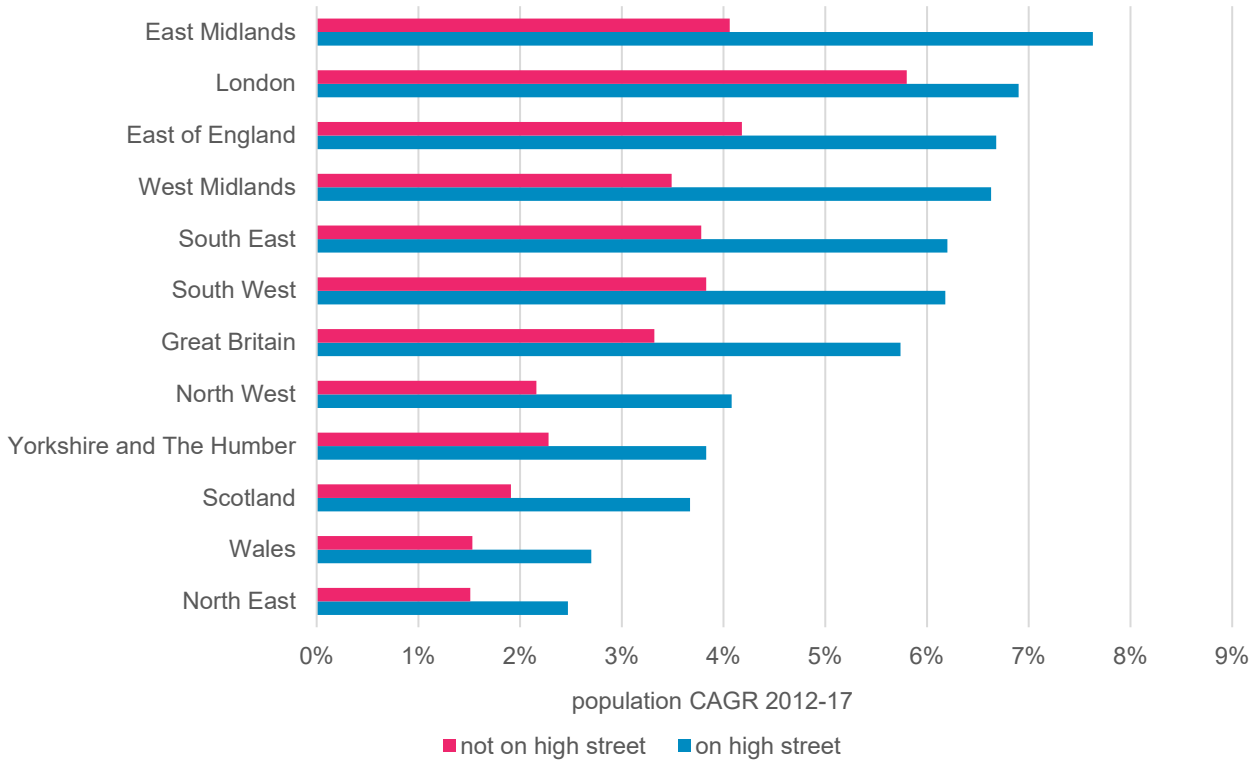
Figure E.2: Population and employment per high street, countries and regions of Britain, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Across the countries and regions of Britain population growth is higher on high streets, than in areas not on high streets. On high streets the annual growth rate in London is 6.9%, second only to the East Midlands, and compared with 5.7% for Britain. Not on high streets London's annual growth rate is the highest at 5.8%, compared with 3.3% for Britain, (Figure E.3).

Figure E.3: Annual population growth on high streets and not on high streets, countries and regions of GB, 2012-2017

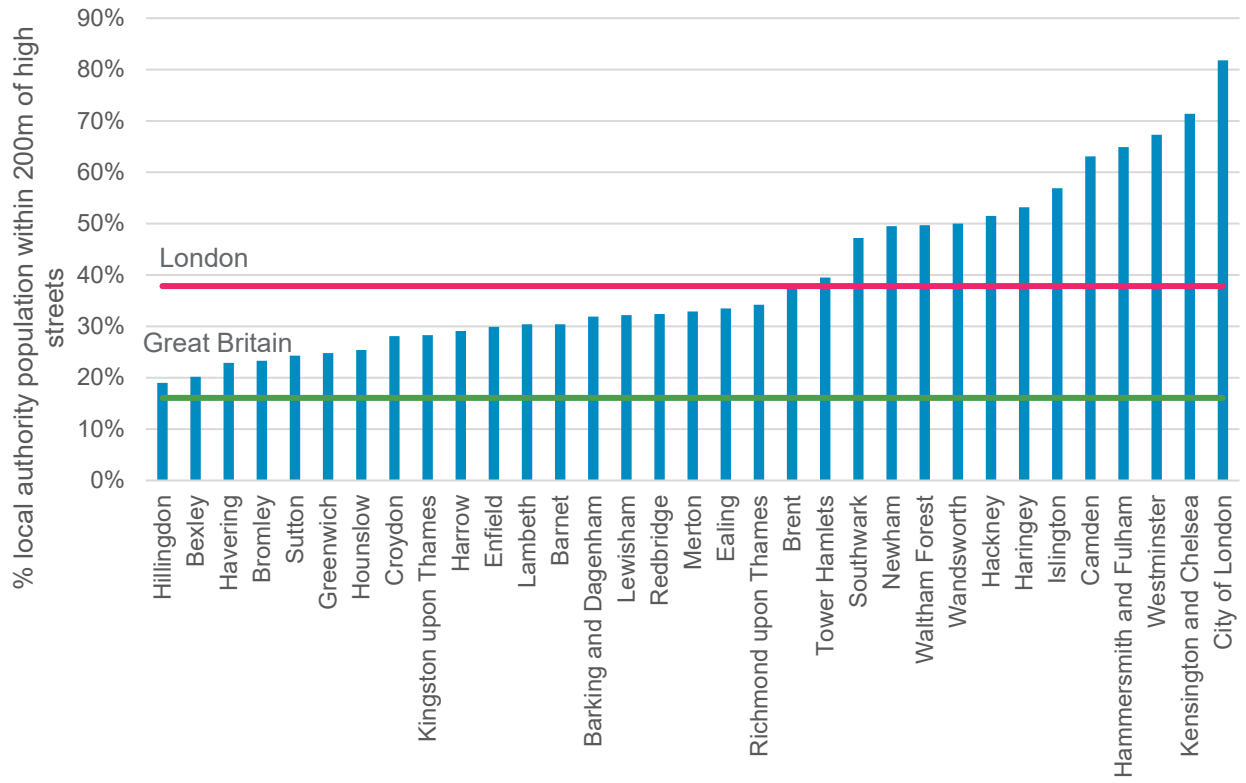


Source: GLA Economics analysis of ONS 2019 release of High Streets in Great Britain

There is a higher proportion of the population living near high streets in every local authority in London than in Britain as a whole. The proportion is highest for local authorities in the centre of London, (Figure E.4):

- 82% of the population of the City of London;
- 71% of the population of Kensington and Chelsea;
- 67% of the population of Westminster.

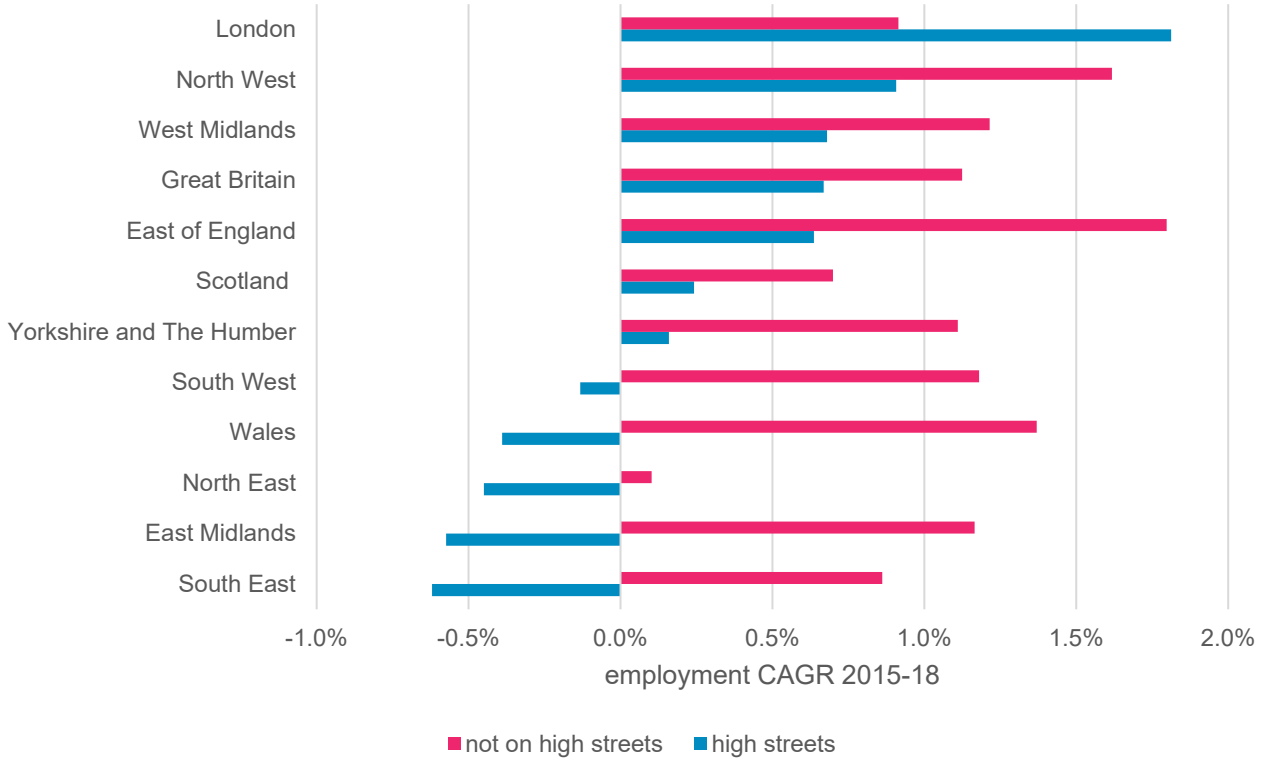
Figure E.4: Proportion of population living near an OS high street by London local authority, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Only in London has employment growth been higher on high streets than not on high streets. On high streets annual employment growth in London has been 1.8% a year, compared with 0.9% in the North West, and 0.7% in Britain. Not on high streets annual employment growth has been fastest in the East of England at about 1.8% a year, compared with 1.1% in Britain, and 0.9% in London, (Figure E.5). Again, the comparative importance of high streets in London may, in part, be because London is an entirely urban region.

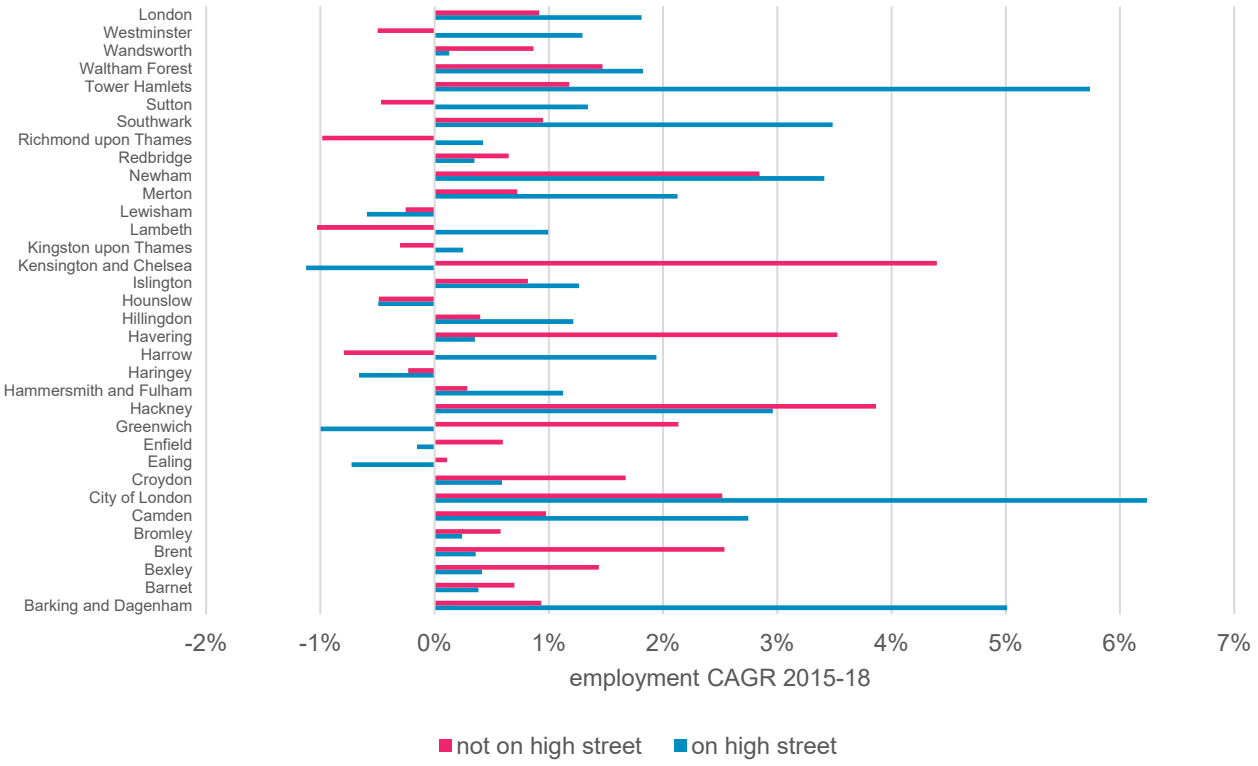
Figure E.5: Annual employment growth on high streets and not on high streets, countries and regions of GB, 2015-2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

The pattern is repeated across most local authorities in London that employment growth has been higher on high streets than elsewhere, (Figure E.6).

Figure E.6: Annual employment growth on high streets and not on high streets, London local authorities, 2015-2018



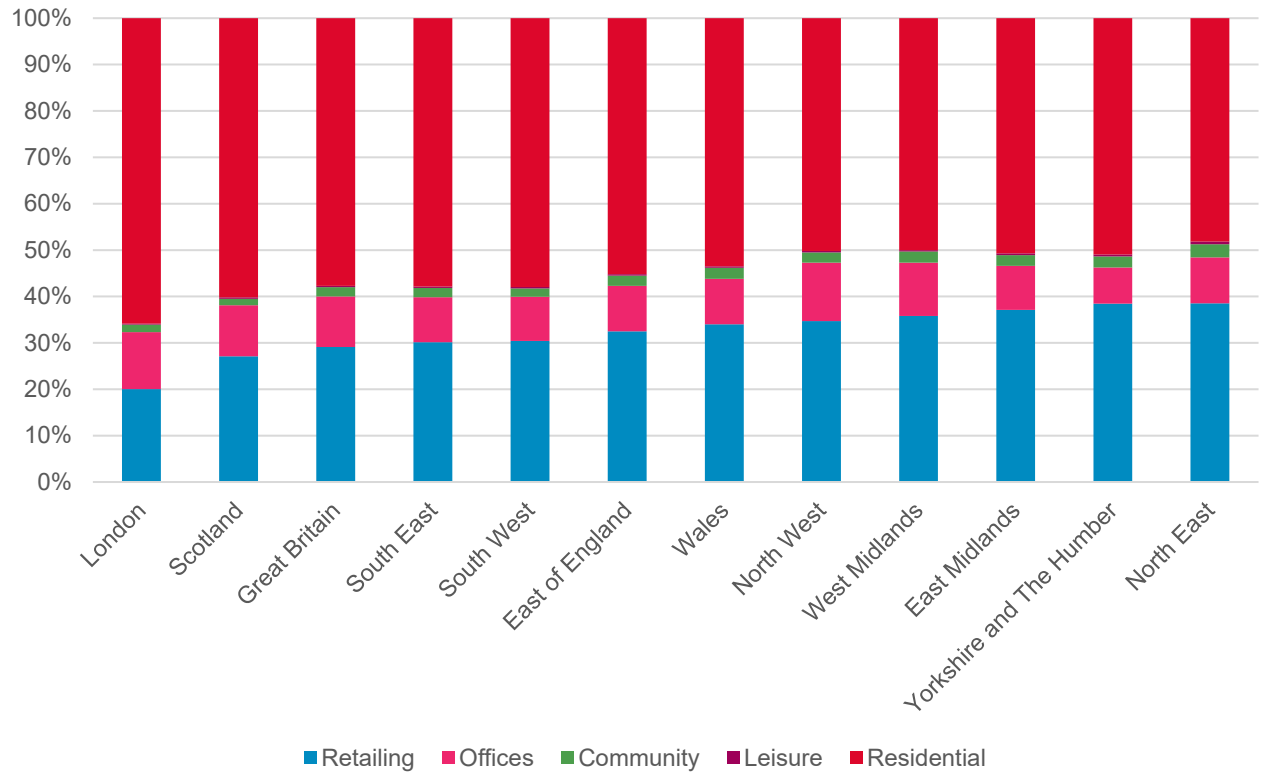
Source: GLA Economics analysis of ONS 2020 release of High Street in Great Britain

E.3 The contribution of the retail goods sector to high streets

Retailing and residential are the most common forms of high street address[101] for properties across the countries and regions of Britain. In all regions together they make up at least 85% of addresses – typically the more proportionately there are of residential addresses the smaller the proportion of retailing addresses. London is in line with this trend having both the highest proportion of residential addresses (66%), and the lowest proportion of retailing addresses (20%), (Figure E.7).

[101] Figures E.7 and E.8 use address data for land use type as defined by MHCLG

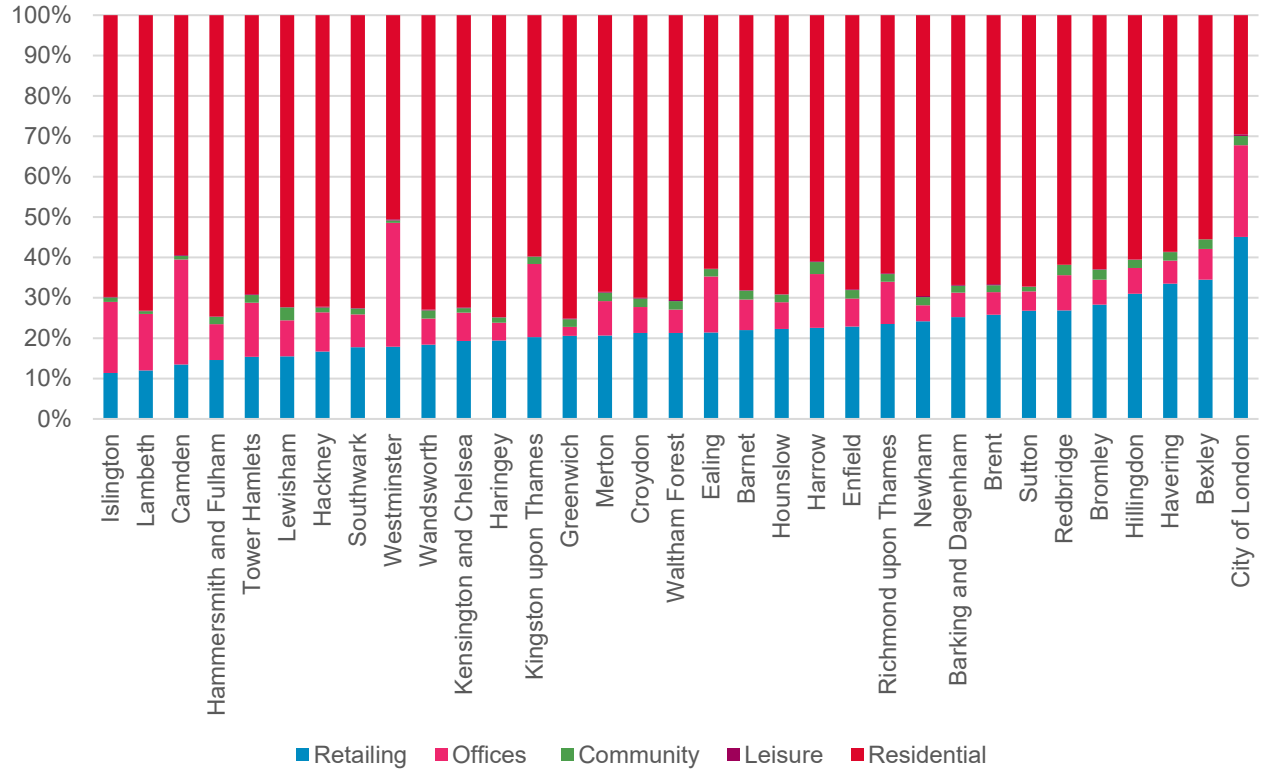
Figure E.7: The distribution of high street addresses by property type, countries and regions of Britain, 2020



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

At a London local authority level there is not such a simple relationship between the relative proportion of retailing and residential high street addresses. Islington has the lowest proportion of retailing addresses at 11%, and the City of London has the highest at 45%. 18% of Westminster addresses are in retailing despite its importance for shops, which also indicates the importance of residential accommodation in this borough, (Figure E.8). There is no simple pattern on the relative importance of retailing across local authorities.

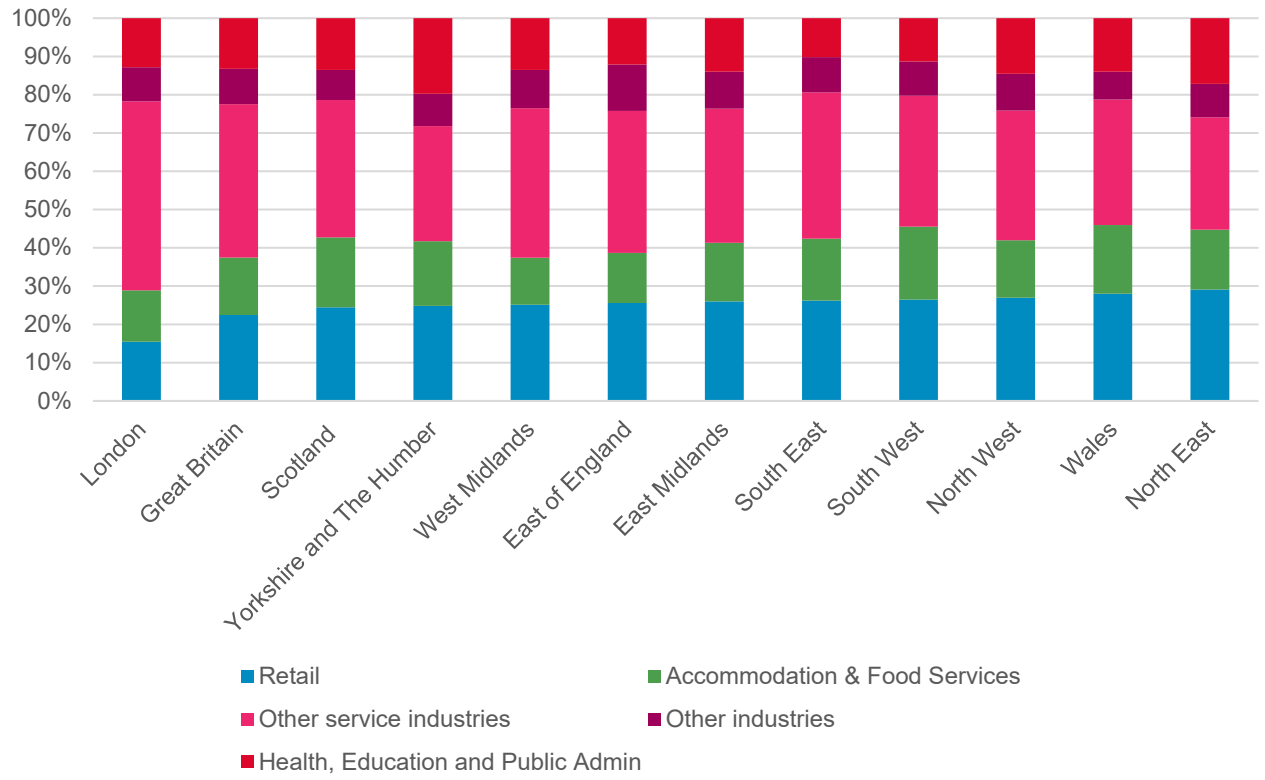
Figure E.8: The distribution of high street addresses by property type, London local authorities, 2020



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

London's high streets have the lowest proportion of retail goods employment of any of the countries and regions of Britain, at 15%. For Britain it is 22%, and the next lowest is Scotland at 24%. London is also below the national average for the share of Accommodation and food services employment on high streets at 13%, compared with 15% for Britain. In contrast, London is the region with the highest share of employment in Other service industries on high streets at 49%, compared with a figure of 40% for Britain, (Figure E.9).

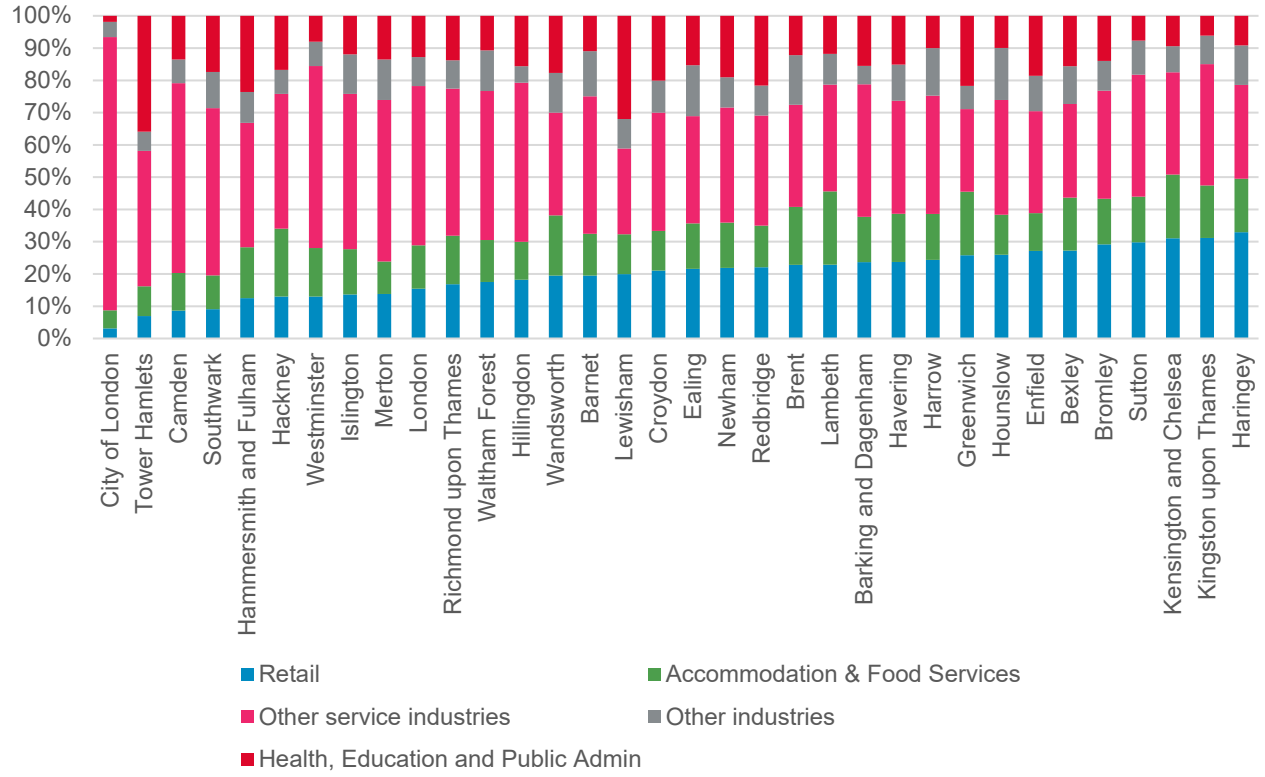
Figure E.9: The distribution of high street employment by sector, countries and regions of Britain, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

At a local authority level, on the high streets of the City of London retail goods employment is 3% of employment and other services 85%. At the other extreme in Haringey retail goods employment is 33% of employment and other services 29%, (Figure E.10). Again, there is no simple pattern on the relative importance of retailing across London local authorities.

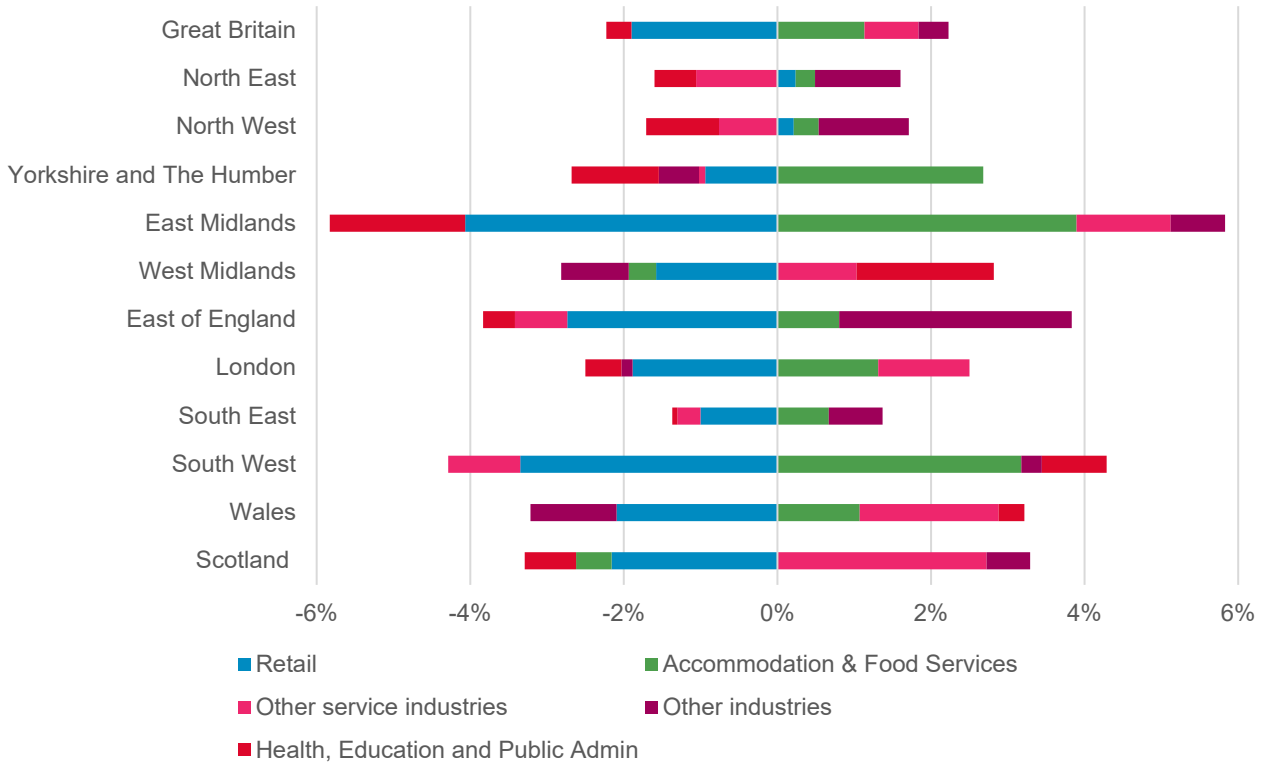
Figure E.10: The distribution of high street employment by sector, London local authorities, 2018



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

Across most, but not all, of the high streets of the countries and regions of Britain there has been a shift away from retail goods employment, and an increase in the share of employment in Accommodation and food services, (Figure E.11). For London, the loss in share in retail goods employment has been the same as for Britain at -1.9 percentage points. London's gain in share Accommodation and Food services at 1.3 percentage points is slightly larger than Britain's at 1.1 percentage points.

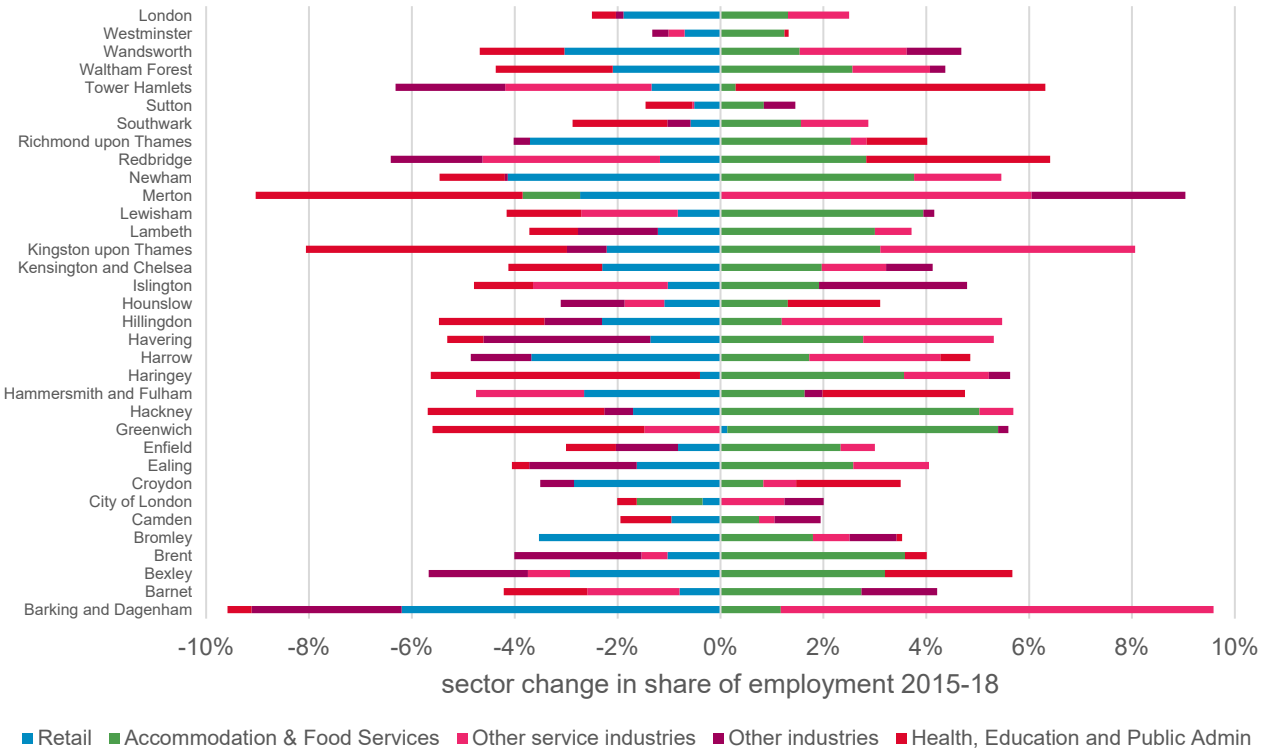
Figure E.11: Change in sector share of high street employment 2015-2018, countries and regions of Britain



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

There is a similar finding for London's 33 local authorities. All bar one (Greenwich) have seen a fall in the share of retail goods employment, and all bar two (City of London and Merton) have seen a rise in the share of Accommodation and food services employment, (Figure E.12).

Figure E.12: Change in sector share of high street employment 2015-2018, London local authorities



Source: GLA Economics analysis of ONS 2020 release of High Streets in Great Britain

This is consistent with the analysis elsewhere in this paper that the leisure sector is becoming relatively more important than the retail sector on London's high streets.

Appendix F – The resilience of retailing in the main shopping and other areas

F.1 Overview and main findings

The analysis of the main paper has highlighted some of the pressures on retail shops:

- The general pressure on land in London, and particularly the transition of office space to the centre of the city;
- An increased share of consumer expenditure on leisure activities, alongside increased retail spending;
- The continuing growth in e-commerce, and the decline in comparison shops;
- Rising costs from increases in the minimum wage and business rates.

It has been noted that while there has been a growth in shops this has been away from the main shopping and other areas. The analysis of Appendix C concludes that across the main shopping areas there is a strong correlation between both the number of comparison shops and all shops, and in changes in shops. The exception is town centres. The main shopping areas have also faced a range of experiences in terms of growth or contraction in shops, and this has not been related to the number of shops in an area, or the vacancy rate.

This appendix looks at the resilience of retailing in the main shopping and other areas in the face of these changes.

London's retail and leisure shop vacancy rate has remained three percentage points below that of Britain, and the shop vacancy rate of the main shopping and other areas has remained below the national rate. The rate is lowest in the CAZ, and highest in OAs. Despite benign economic conditions the rate has been rising since 2016 in London and nationally. One explanation is that there has been a growth in shops, and off-street shopping developments may have contributed to this.

Most main shopping and other areas are managing the growth in shopping units, that is occupied and non-occupied shops. There are two main concerns:

- Potential oversupply of shops in some areas of the capital:
  - 33% of local authorities and 23% of OAs have vacancy rates persistently above the London average;
  - In over 70% of local authorities and 60% of OAs both the number of shops, and number of vacancies has been rising.
- A declining role for shops:
  - In 40% or more of town centres and high streets shop numbers are falling.

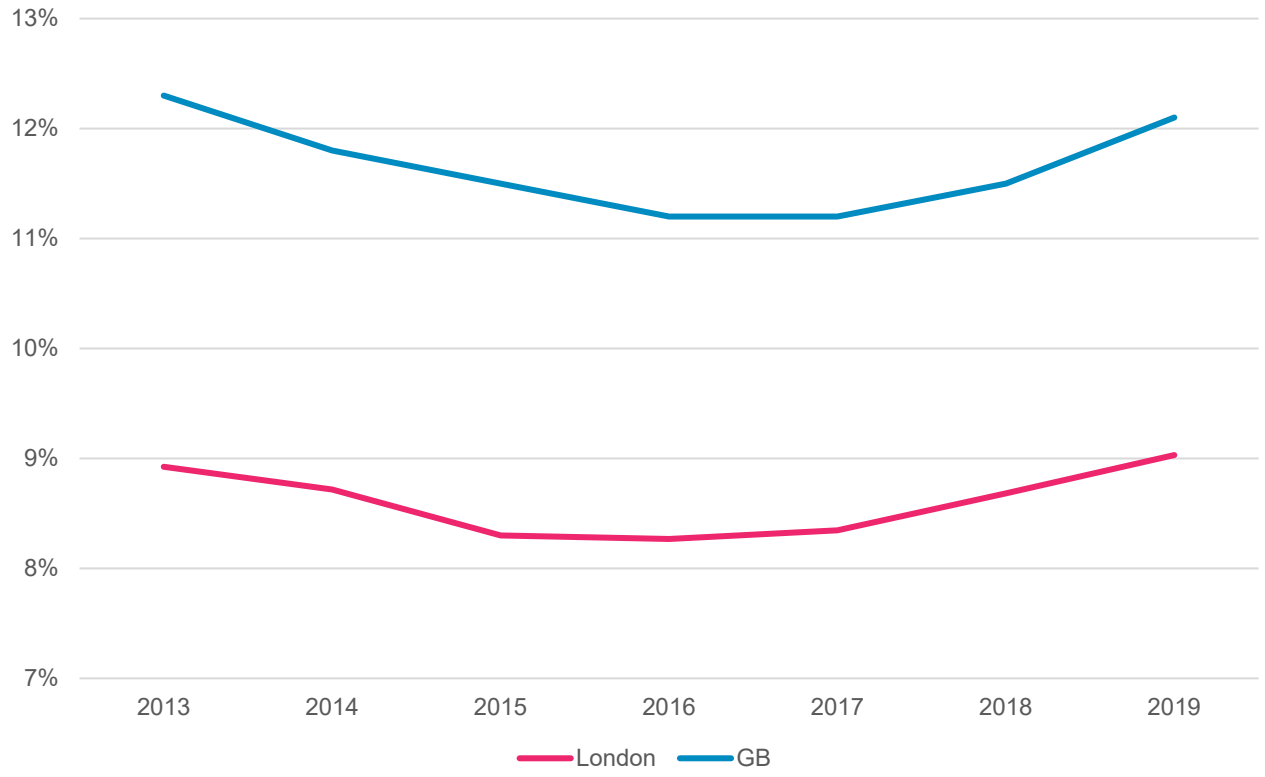
To complete the picture it will be necessary to assess the scale and nature of future demand to inform spatial planning for these areas.

F.2 Vacancy rates

Shop vacancy rates have been rising despite benign economic conditions. The vacancy rate of shops in London has been continuously 3 percentage points below the rate for Great Britain. In 2016 in London it fell to 8.3%, and in 2019 it rose to 9.0%, a little higher than the rate in 2013, (Figure F.1).

Figure F.1: Shop vacancy rate, London and Britain, 2013-2019

The vacancy rate for shops in London is persistently below the GB rate

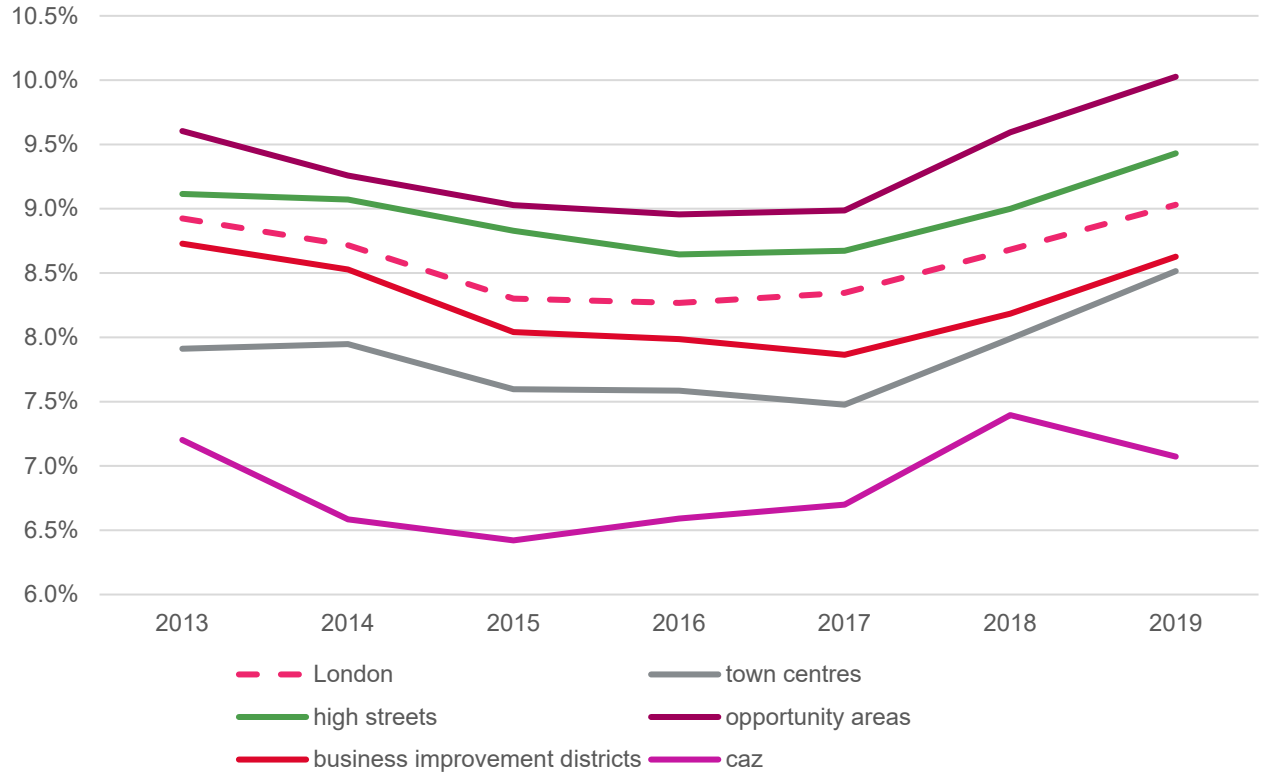


Source: LDC for GB, and GLA Economics analysis of LDC data for London

In London there is a hierarchy of shop vacancy rates across the main shopping and other areas. The CAZ has the lowest vacancy rate, while the highest are OAs and high streets, (Figure F.2). The vacancy rate for OAs has always been below that for Britain.

Figure F.2: Shop vacancy rate by London main shopping and other area, 2013-2019

There is a hierarchy of shop vacancy rates across London the main shopping and other areas



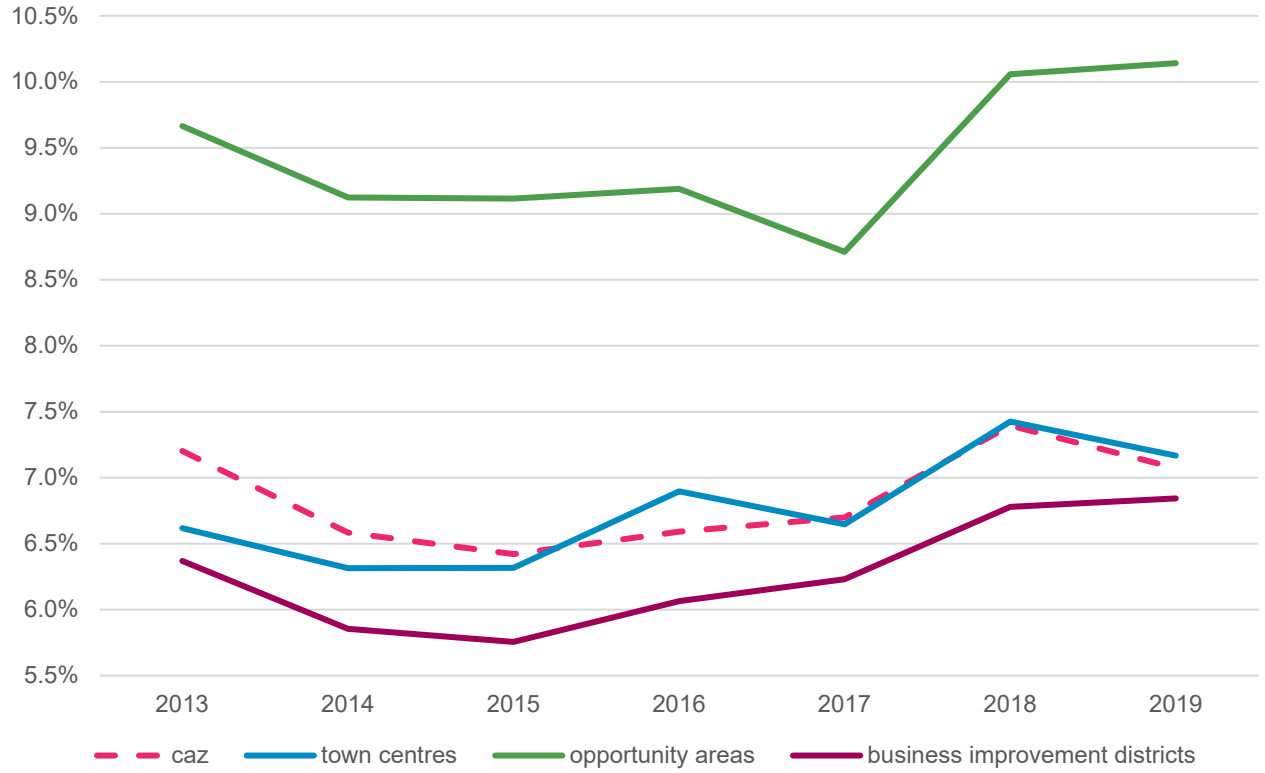
Source: GLA Economics analysis of LDC data for London

How well retailing is faring in different types of main shopping and other area depends in part on the extent to which individual areas fall or not within the CAZ.

Figure F.3 replicates Figure F.2 for the main shopping and other areas with a part within the CAZ. Again, OAs have the highest shop vacancy rate, and BIDs have a vacancy rate below the CAZ average, while the rate for town centres tracks the average for all shops. Unlike London, the vacancy rate in the CAZ fell in 2019.

Figure F.3: Shop vacancy rate by CAZ main shopping and other area, 2013-2019

There is a hierarchy of shop vacancy rates across the main shopping and other areas within the CAZ

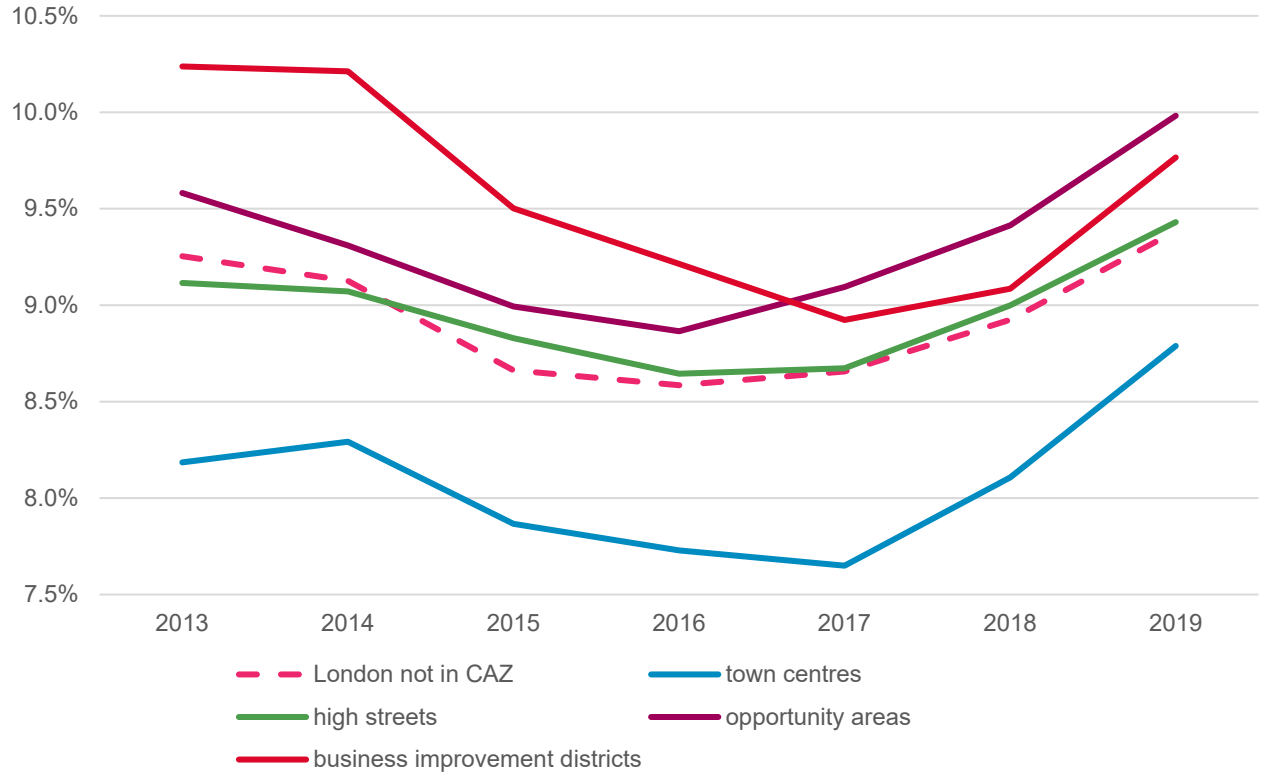


Source: GLA Economics analysis of LDC data

Figure F.4 replicates Figure F.2 for the main shopping and other areas entirely outside the CAZ. The vacancy rate for high streets tracks that for shops outside the CAZ, while that for town centres is below the average. Vacancy rates for BIDs and OAs are above the average.

Figure F.4: Shop vacancy rate by non-CAZ main shopping and other area, 2013-2019

There is a hierarchy of shop vacancy rates across the main shopping and other areas outside the CAZ

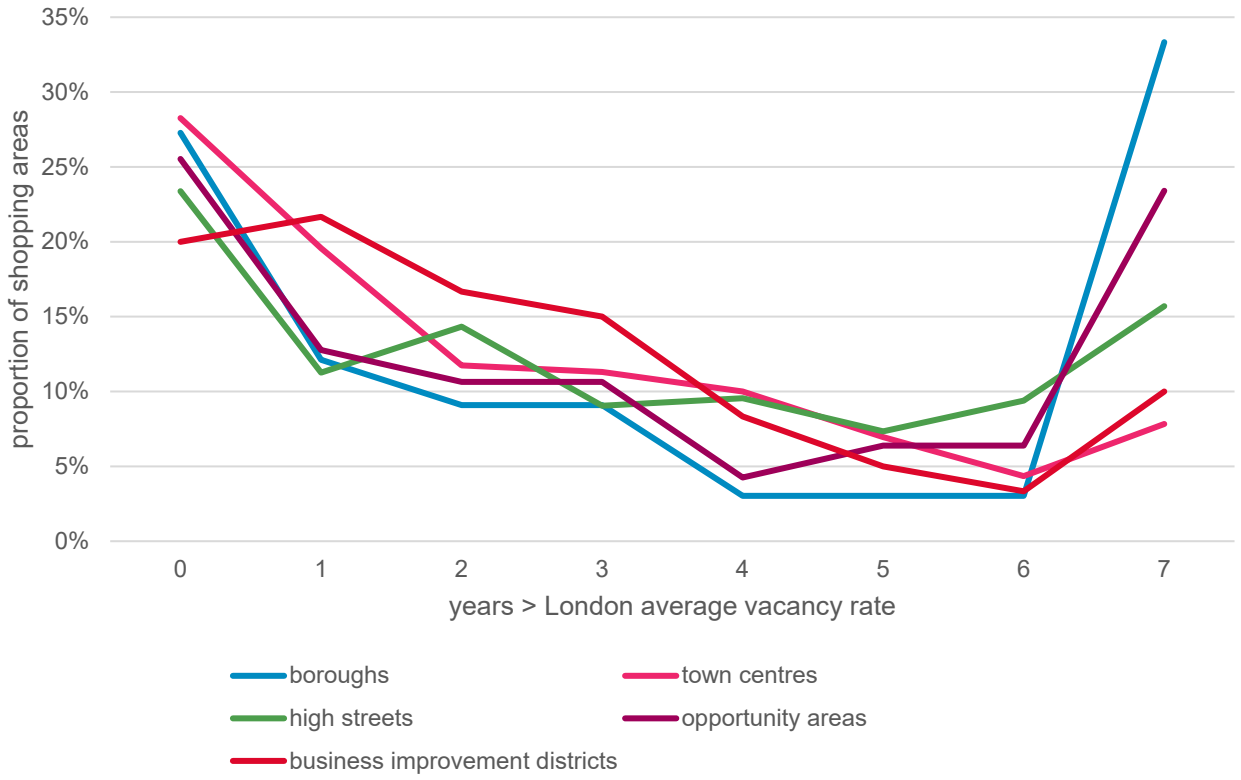


Source: GLA Economics analysis of LDC data

The trend in the shop vacancy rate for a type of main shopping or other area, such as high streets, is not necessarily the trend for individual high streets. Except for London local authorities it is more common for each type of these areas to have a higher proportion of individual areas with zero years above the London average shop vacancy rate than seven years (or all years for which there is data) above the London average. 33% of local authorities and 23% of OAs have shop vacancy rates persistently always above the London average, and excluding these areas would lower the vacancy rate across London. For each type of main shopping or other area the proportion of individual areas above the London average declines with years of persistence from 0 to 6, (Figure F.5).

Figure F.5: Years of persistence in shop vacancy rate above the London average, proportion of type of main shopping and other area, 2013-2019

There are a relatively small proportion of individual main shopping or other areas which persistently have shop vacancy rates above the London average

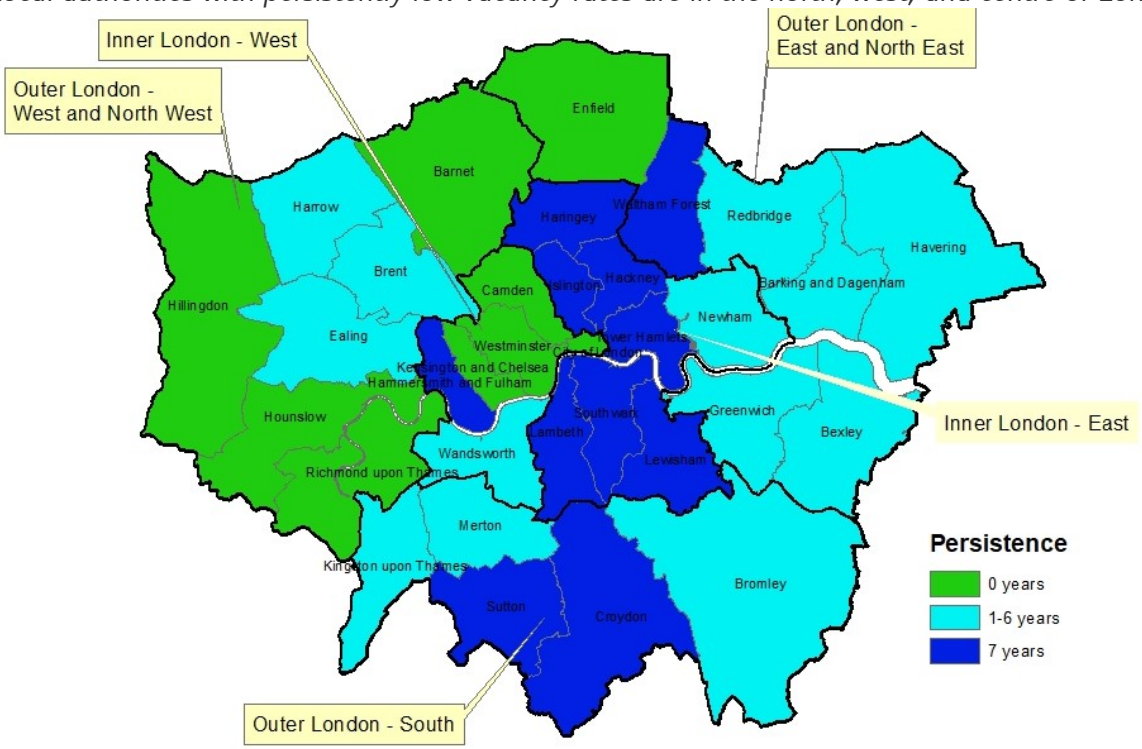


Source: GLA Economics analysis of LDC data

The local authorities with zero years of persistence in vacancy rate above the London average are in the north, west (but not all of this area), and western part of central London. More surprisingly, those local authorities with vacancy rates always above the London average lie on a north-south axis through the eastern part of central London, (Map F.1).

Map F.1: Years of persistence above London average vacancy rate by local authority, 2013-2019

Local authorities with persistently low vacancy rates are in the north, west, and centre of London



Source: GLA Economics analysis of LDC data

F.3 Shopping units

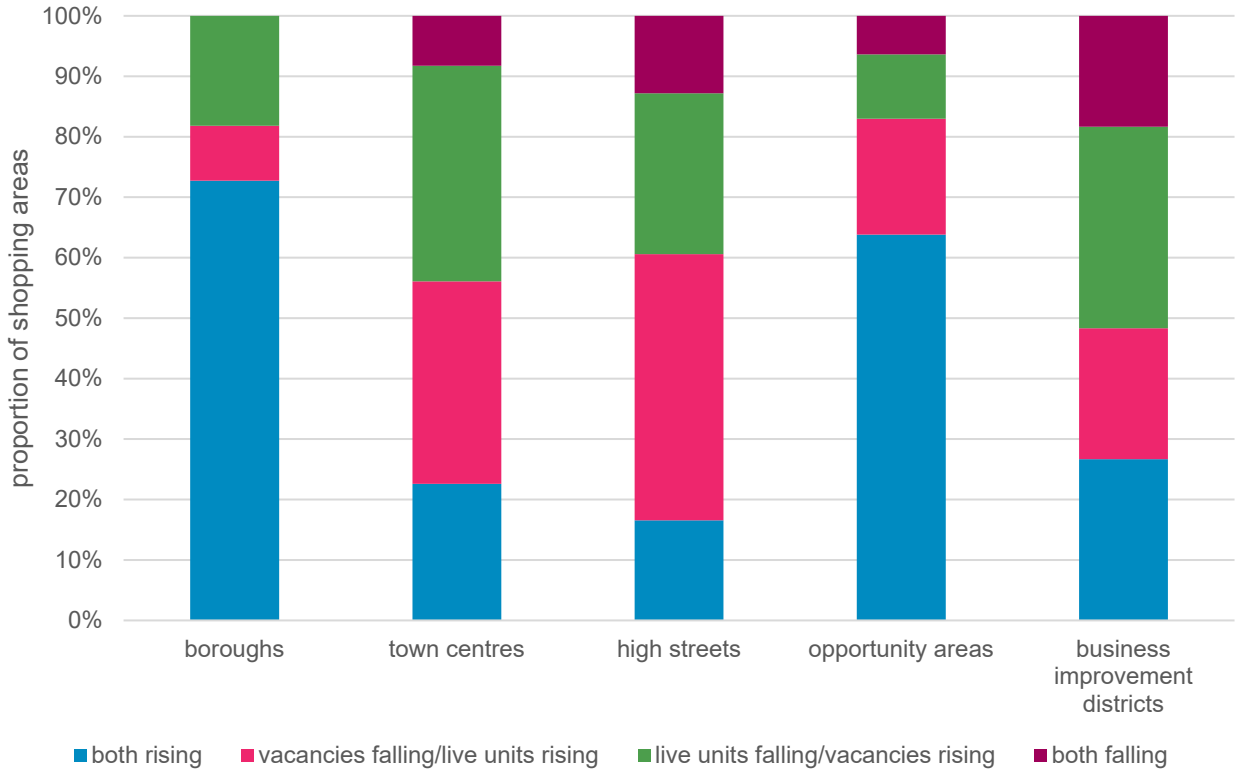
One of the reasons for the rise in vacancy rates is that new shops are not on the sites of former shops. Off-street shopping developments have contributed to this effect.

The numbers of shops, and vacancies, have not been moving in step across main shopping and other areas since 2015, (Figure F.6). There are some distinct trends:

- Rising numbers of shops:
  - In over 80% of local authorities and OAs the number of shops has been rising;
  - In over 50% of town centres and high streets the number of shops has been rising;
  - In slightly under 50% of BIDs the number of shops has been rising.
- Rising numbers of shops and vacancies:
  - In over 70% of local authorities and 60% of OAs both the number of shops, and number of vacancies has been rising;
  - For town centres, high streets, and BIDs it is less than 30%.
- Rising numbers of shops and falling vacancies:
  - In 33% of town centres the number of shops is rising and the number of vacancies falling;
  - This falls to 19% for OAs.
- Falling shop numbers:
  - In 40% or more of town centres and high streets shop numbers are falling;
  - In over 50% of BIDs shop numbers are falling.
- Falling shops and vacancies:
  - In 18% of BIDs both shops and vacancies are falling;
  - The proportion is lower for other types of main shopping and other area.

Figure F.6: Trends in shops and vacancies by type of main shopping and other areas, 2015-2019

A significant proportion of main shopping and other areas have growing shops and/or vacancies

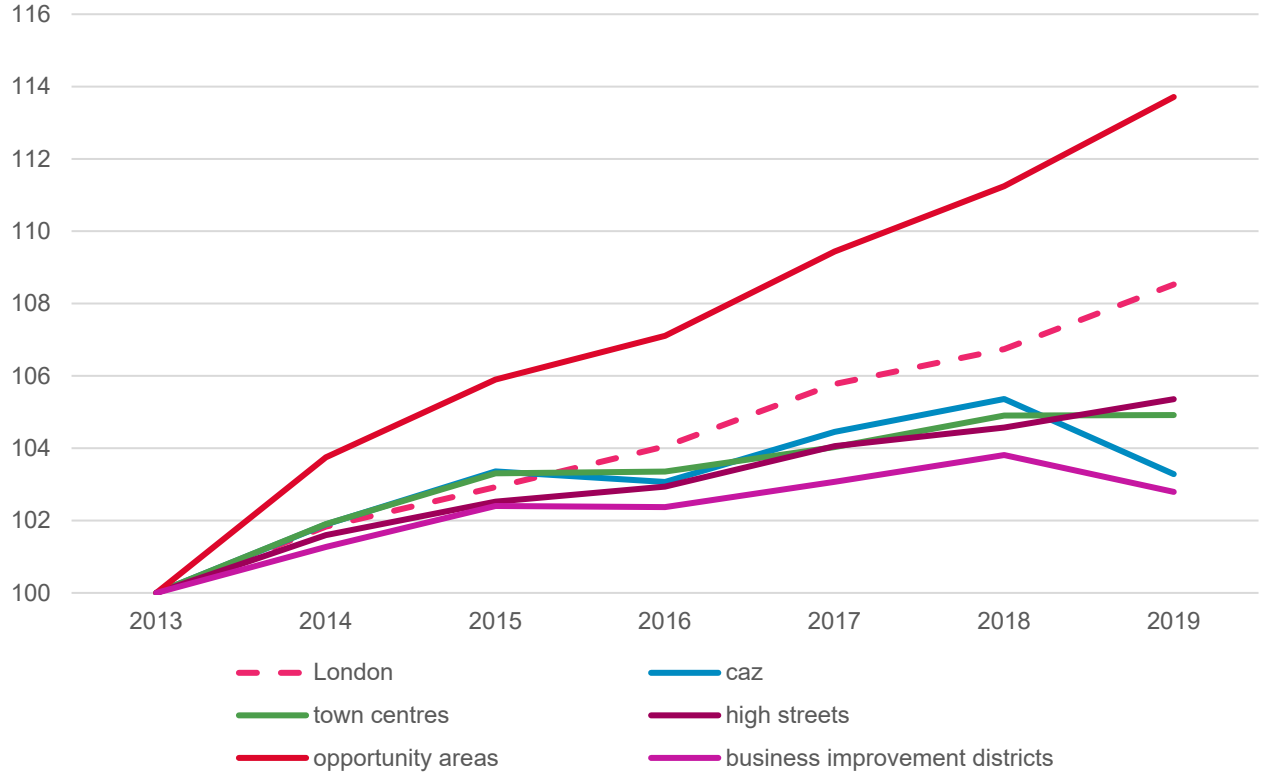


Source: GLA Economics analysis of LDC data

For most types of main shopping and other areas the growth in shopping units has been less than for London. The exception is OAs, (Figure F.7). As noted in Chapter 3 the number of shops has grown fastest away from these areas. The number of shopping units is declining in the CAZ and BIDs, but still rising, if marginally, in town centres and high streets.

Figure F.7: Growth in number of shopping units by type of main shopping and other areas, 2013-2019, index numbers, 2013 = 100.0

Most types of main shopping and other areas have kept the growth in shopping units below the London average



Source: GLA Economics analysis of LDC data

To complete the picture it will be necessary to assess the scale and nature of future demand to inform spatial planning for these areas

Appendix G – Support for retail businesses through the business rate system

G.1 Overview and main findings

There are a number of reliefs, exemptions, and discounts in the business rate system[102]. Retail businesses may be required to pay a supplement to fund small business rates relief, or indeed be a beneficiary of it. They may also be entitled to retail relief or charity relief. This appendix considers how this part of the business rates system is working. The analysis is for all businesses as data is not available for retail businesses.

In 2019/20 around two-thirds of businesses in London were small, that is have a rateable value of less than £51,000, and around three-quarters of businesses in England were small. The marked effects of the 2017 revaluation for small businesses have been to:

- Increase London's share of the yield from the small business rate supplement from 29% in 2016/17 to 36% in 2017/18;
  - This was worth £226m to London in 2018/19 and £631m to England.
- Increase London's share of businesses benefiting from the supplement from 17% in 2016/17 to 20% in 2017/18;
- Reduce the proportion of England's small businesses in London receiving a discount from 23% in 2016/17 to 20% in 2017/18.

Chapter 5 reports that London's overall share of business rates has increased with the 2017 revaluation.

Retail relief was worth £108m to the capital, out of £357m for England in 2019/20, prior to its extension due to the impact of COVID-19. Before this, it was last available in 2015/16.

In 2019/20, 13,400 London charities have entitlement to the associated relief, or 14% of the 92,900 charities in England. That is, the relief extends far beyond the number of charity shops in London.

The remaining sections are:

- Small business relief;
- Retail relief;
- Charity relief.

G.2 Small business relief

A small business for these purposes is one with a rateable value of up to £51,000. All such businesses benefit from the small business rates multiplier. There is a sliding scale for small business rates relief by rateable value:

[102] The description of reliefs comes from National non-domestic rates collected by councils in England: forecast for 2018 to 2019 - GOV.UK

- Below £12,000 – 100% rate relief;
- Between £12,001 and £15,000 – relief is on a sliding scale from 100% to zero;
- Over £15,000 – no relief granted.

These thresholds came into effect in 2017/18.

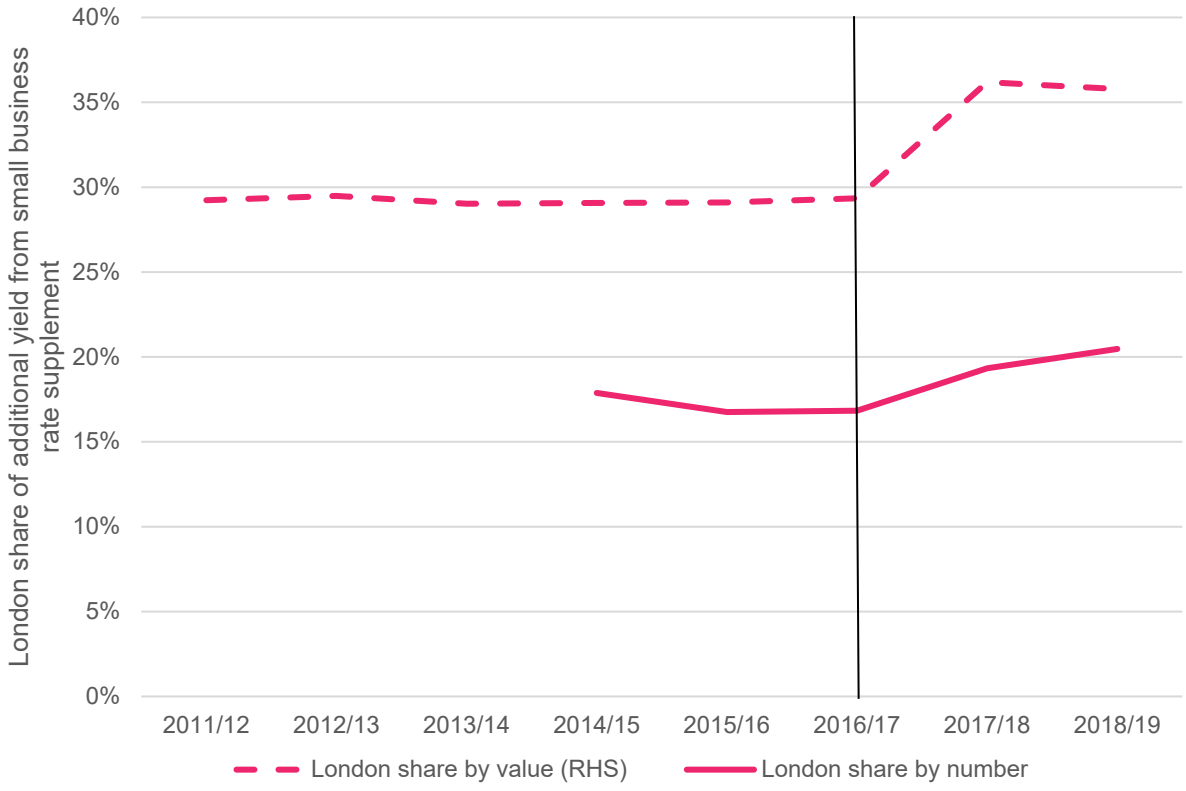
This relief is primarily funded by a supplement in the national multiplier (1.3p in the pound in 2018/19, the difference between the national and small business multipliers) paid for by businesses with rateable values of over £51,000. This was worth £226m to London in 2018/19 and £631m to England.

There is also a Supporting Small Businesses relief for ratepayers losing small business or rural rate relief due to the 2017 revaluation for five years from 1 April 2017 until 2021/22. It has a value of £13m in England in 2018/19.

Prior to the 2017 business rates revaluation London's share by value of the small business rate supplement had been 29%, but rose to 36% in 2017/18 and 2018/19, (Figure G.1). This reflects the transitional protection given to small businesses from the rates revaluation, and that London's businesses were most likely to be adversely affected by revaluation. The share of the yield for England went down because London's share rose.

London's share of the businesses benefiting was somewhat less rising from 17% in 2016/17 to 20% in 2018/19. That is, London's businesses were gaining more on average than businesses across England.

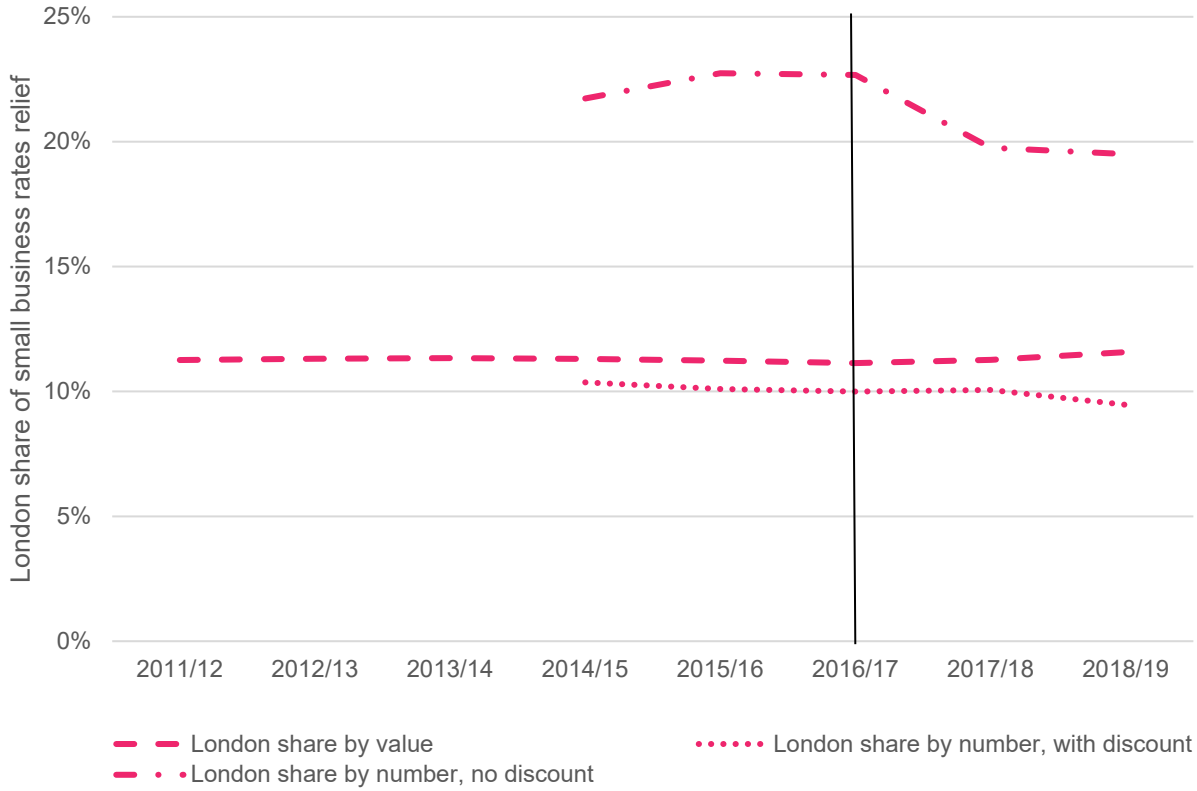
Figure G.1: London's share of yield in England from small business rate supplement, by numbers of businesses benefiting, and value, 2011/12 to 2018/19



Source: MHCLG NNDR1 & NNDR3

London's share by value of the small business rate relief has remained at around 11%, (Figure G.2). This proportion is lower than for the supplement because businesses with higher rateable values do not receive the relief. London's share of businesses with no discount has been declining slightly between 2014/15 and 2018/19 at around 10% of England's businesses. The proportion in London with a discount declined sharply at revaluation from 23% in 2016/17 to 20% in 2017/18. This is primarily because more businesses in the rest of England have become entitled.

Figure G.2: London's share in England of small business rates relief, by numbers of businesses benefiting, and value, 2011/12 to 2018/19

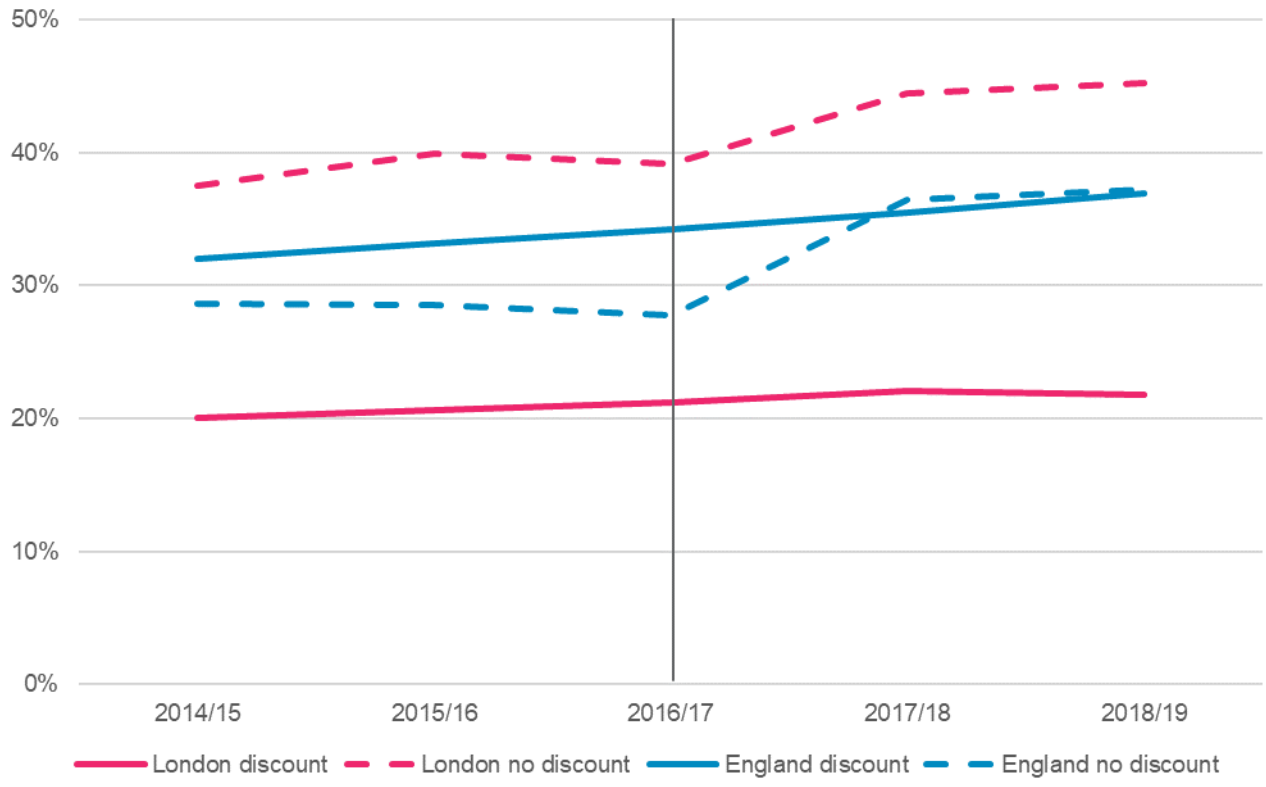


Source: MHCLG NNDR1 & NNDR3

Another effect of the 2017 revaluation for businesses in both London and England was the increase in the proportion classified as small businesses (that is their rateable value was less than £51,000), (Figure G.3). There was a corresponding fall in the proportion of businesses with rateable values of over £51,000, and little change in the proportion of small businesses receiving a discount (and so with rateable value of less than £15,000).

As might be expected there are relatively more London businesses with a rateable value over £51,000, around a third (32%) of all businesses, compared with a quarter (25%) for England in 2019/20. It is more common for London businesses to be in the £15,000-£51,000 rateable value bracket, 45% of all businesses in London, compared with 37% in England. In contrast, it is more common for businesses in England to have a rateable value under £15,000, 38% in England compared with 22% in London.

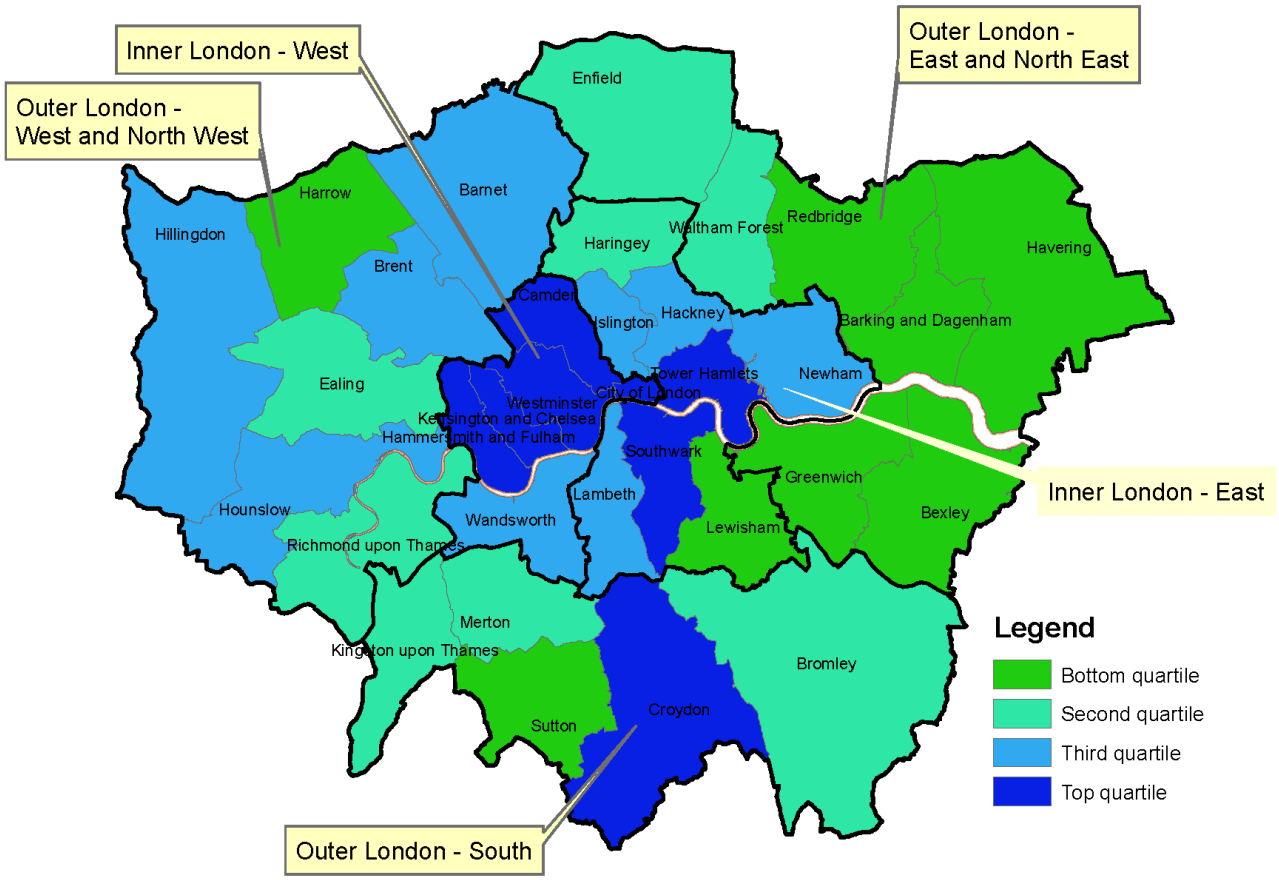
Figure G.3: Proportion of all businesses with small business relief discount, or no discount, London and England, 2014/15 to 2019/20



Source: MHCLG NNDR1

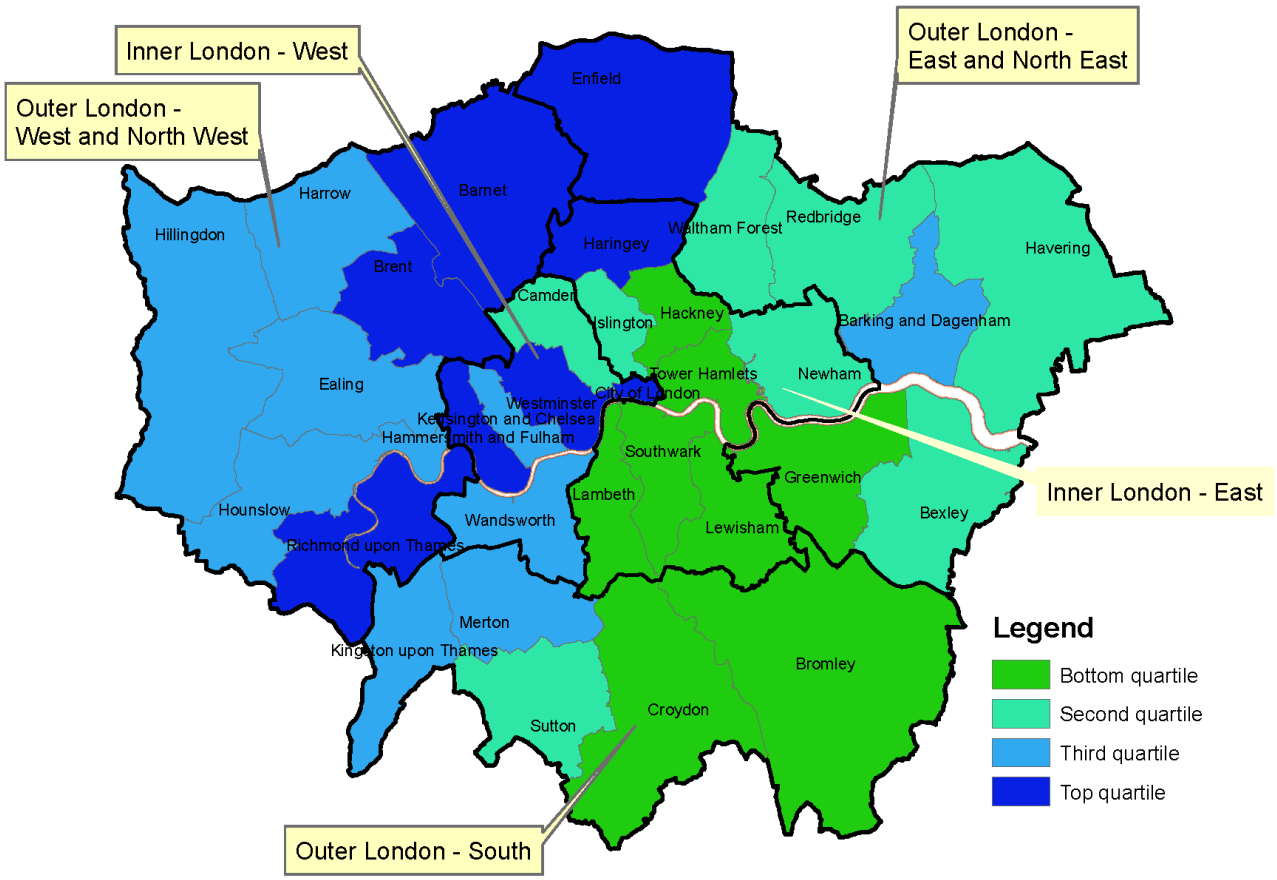
There is a broad, if imperfect, correspondence between the local authorities where businesses are paying the small business supplement, and the businesses in receipt of small business relief – that is it is the areas in the centre and west of London, (Maps G.1 and G.2).

Map G.1: Distribution of businesses across London local authorities paying small business supplement, by quartile, 2019/20



Source: MHCLG NNDR1

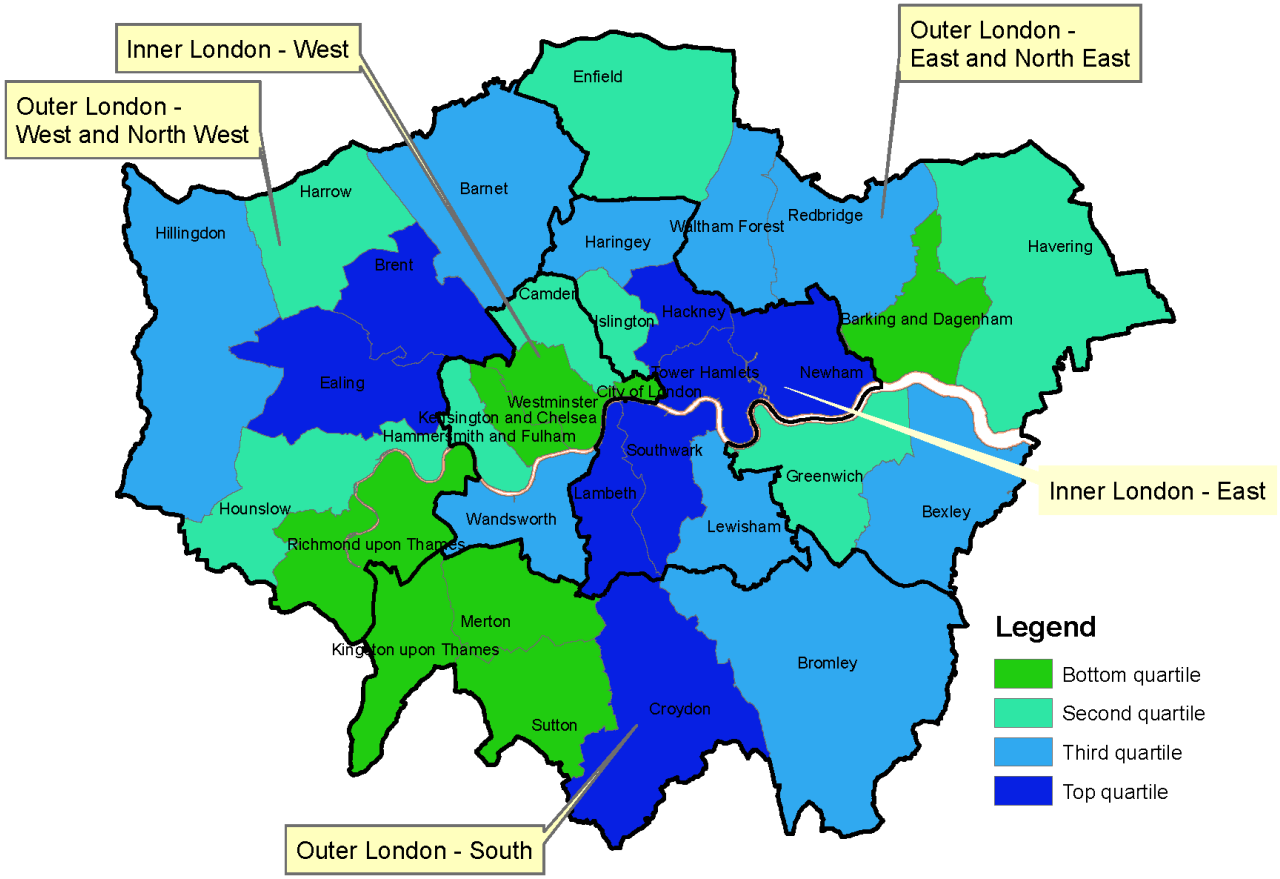
Map G.2: Distribution across London local authorities of percentage change in value of receipt in small business rate relief, by quartile, 2016/17 to 2018/19



Source: MHCLG NNDR3

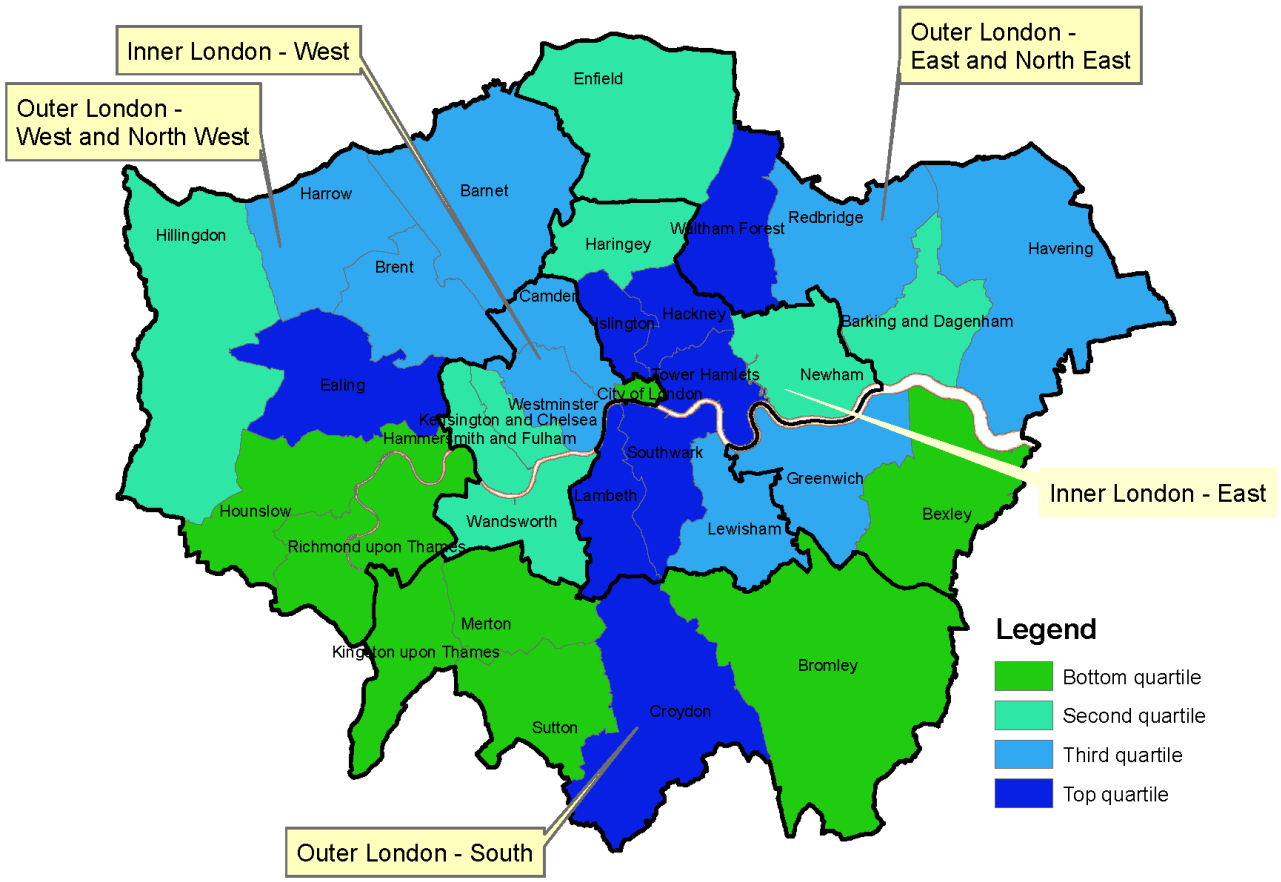
The mandatory small business discounts are most likely to be paid on a north-east axis through London and in part of the west, (Map G.3). Discretionary top-up payments (for local authorities to increase the top up to 100%) are more common in similar areas, (Map G.4). Small businesses not receiving a discount are most likely to be in the centre and west of the capital, (Map G.5).

Map G.3: Distribution of businesses across London local authorities receiving mandatory small business discount, by quartile, 2019/20



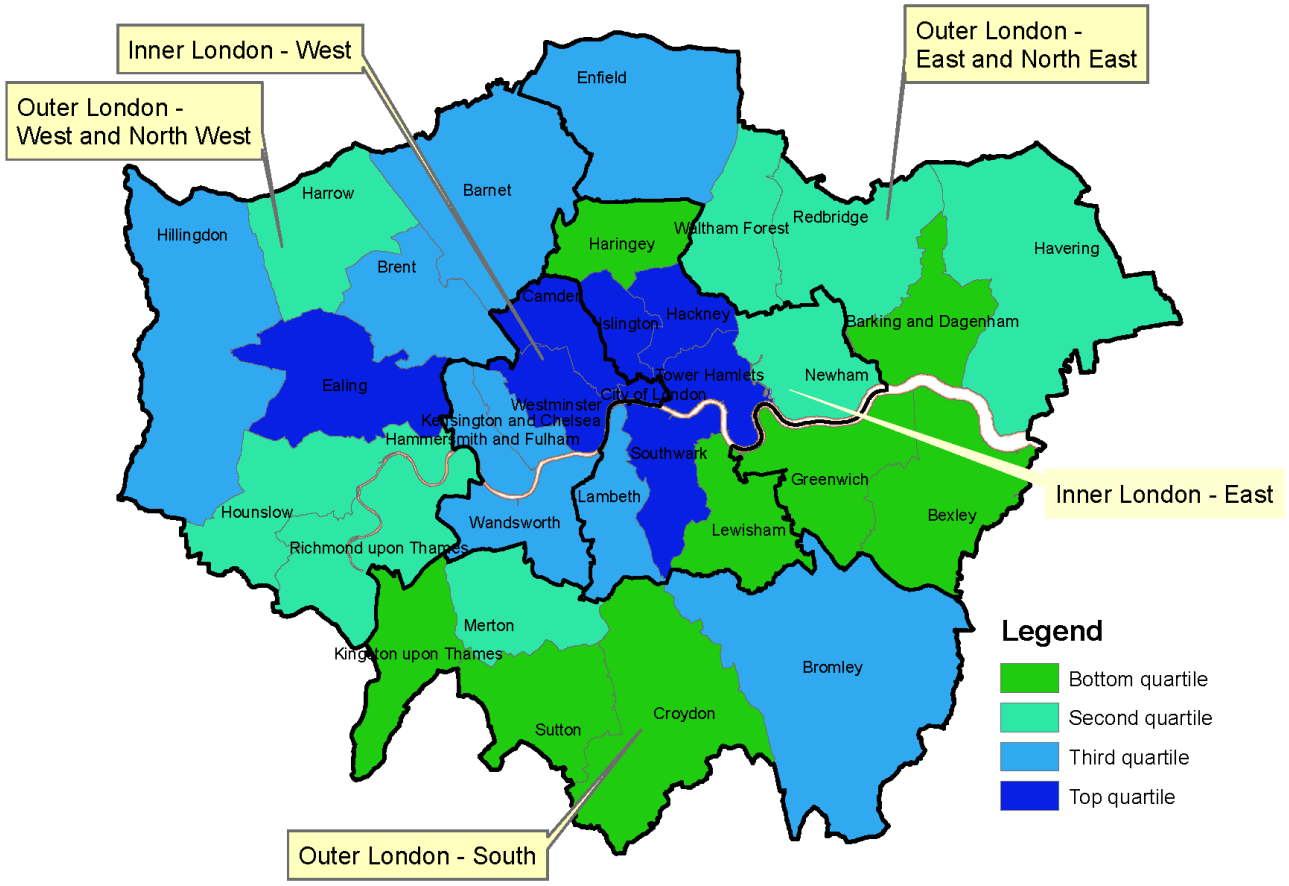
Source: MHCLG NNDR1

Map G.4: Distribution of businesses across London local authorities receiving discretionary small business discount, by quartile, 2019/20



Source: MHCLG NNDR1

Map G.5: Distribution of small businesses across London local authorities receiving no small business discount, by quartile, 2019/20



Source: MHCLG NNDR1

G.3 Retail relief

There was retail relief for 2014/15 and 2015/16. This was a discount for shops, pubs and restaurants with a rateable value of £50,000 or less for two years. The relief granted was a maximum of £1,000 in 2014/15 (worth £99m in England) and £1,500 in 2015/16 (worth £154m).

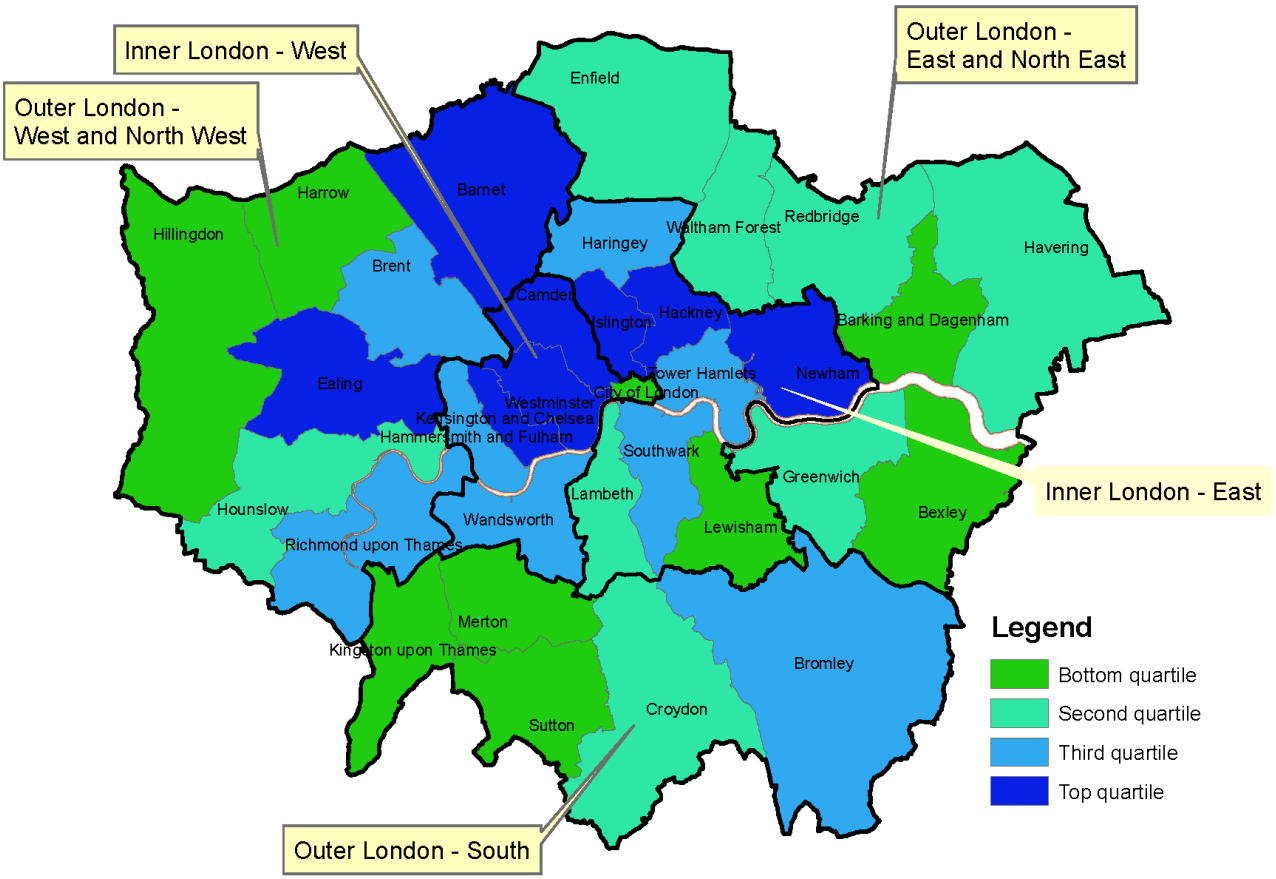
The Government reintroduced retail relief for 2019/20 and 2020/21 for occupied retail properties with a rateable value of less than £51,000. The mandatory discount was a third, and local authorities could also offer a discretionary discount. In 2019/20, this was worth £108m to London, and £357m across England[103]. On 23 March 2020 extended the relief to retail, leisure and hospitality properties that had been forced to close as a result of COVID-19 restriction measures[104].

It is businesses in local authorities in the centre of London which have gained most from this mandatory retail relief, (Map G.6).

[103] Source: MHCLG NNDR1

[104] See Business rates: expanded retail discount - guidance - GOV.UK

Map G.6: Distribution across London local authorities of value of receipt of mandatory retail relief, by quartile, 2019/20



Source: MHCLG NNDR1

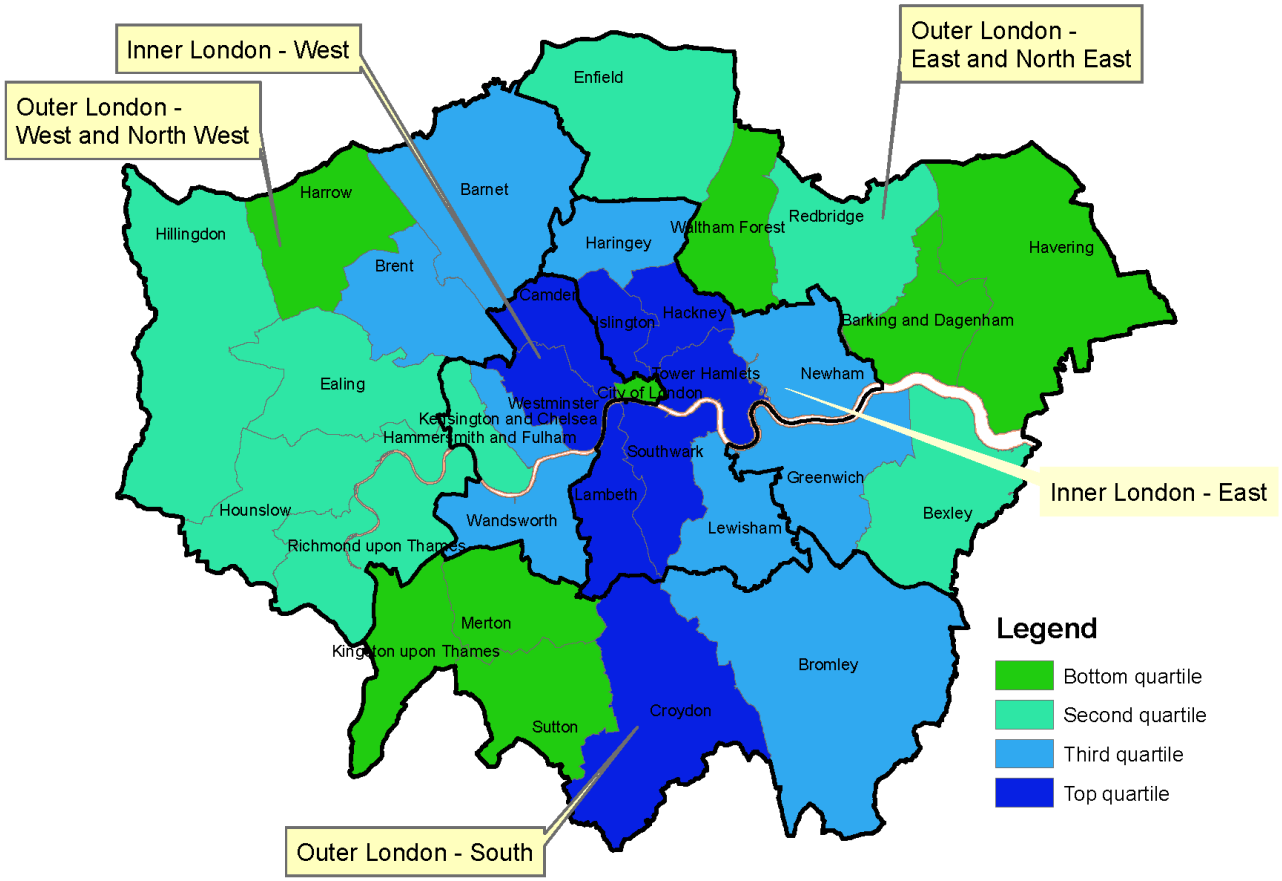
G.4 Charity relief

Charities and community amateur sports clubs can apply for charitable rate relief of up to 80% if a property is used for charitable purposes. It is discretionary for a local authority to top this up to 100% relief[105]. In 2019/20, 13,400 London charities have entitlement to the relief, or 14% of the 92,900 charities in England. That is, the relief extends far beyond the number of charity shops in London. Of these businesses 2,200 in London, or 8% of 27,700 charities in England also receive discretionary relief.

The London local authorities in the top two quartiles of paying the mandatory relief to most charities lie on a north-south axis through the city, (Map G.7), while discretionary payments are more on an east-west axis, (Map G.8).

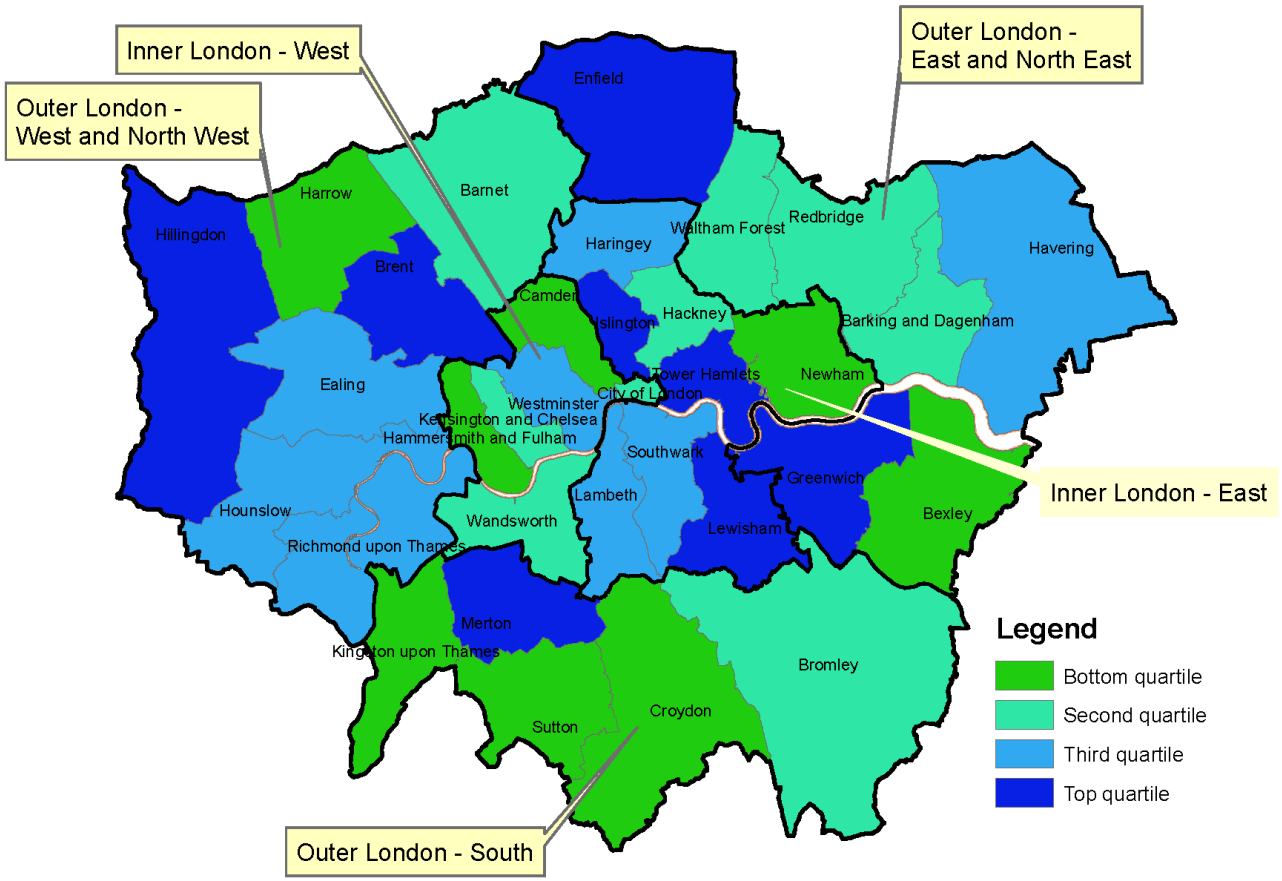
[105] See Business rates relief: Charitable rate relief - GOV.UK

Map G.7: Distribution of businesses across London local authorities receiving mandatory charity relief, by quartile, 2019/20



Source: MHCLG NNDR1

Map G.8: Distribution of businesses across London local authorities receiving discretionary charity relief, by quartile, 2019/20



Source: MHCLG NNDR1

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