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Town centres and local high streets: A commercial opportunity or a risk?

What's the picture?

- Between 2016-17 and 2018-19 local authorities spent an estimated £3.1 billion on acquiring offices
- £2.3 billion on retail property, including £759 million on shopping centres or units within them and
- £957 million on industrial property.

Why invest?

- Support local regeneration or growth
- Generating rental income offset reductions in their funding.
- NAO reviewed 45 authorities' strategies for investment and found all but three identified generating income as a significant objective.

Buying where?

- 38% of spend between 2016-17 and 2018-19 on properties outside local authorities' own geographical areas
- 21% of all acquisitions by value made outside the local authorities' home regions.
- But shopping centre properties were almost always within their areas (95% of spending on shopping centres).

Big difference on shopping centres…. For local regeneration purposes

- Authorities stressed to the NAO that these purchases of shopping centres were primarily to support local regeneration and growth objectives, rather than to secure income alone.

Hey big spender….

- 80% of the £6.6 billion spend on commercial property (over last three years) was by only 49 local authorities (14%).
- 105 authorities spent at least £10 million
- South East of England highly active = 53% of commercial property spending in the last 3 years.
- District councils disproportionately big spenders with 51% of commercial property spend but only 6% of the sector's spending power.

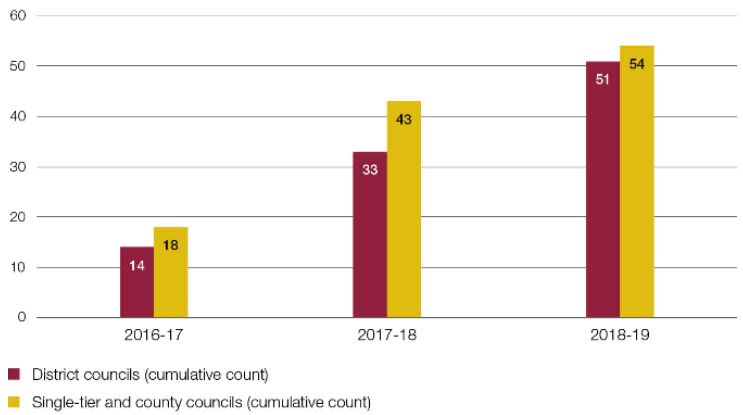
English councils with cumulative spend on commercial property

Figure 6

English local authorities with cumulative spend on commercial property of more than £10 million – 2016-17 to 2018-19

The number of authorities that have spent at least £10 million on commercial property has grown since 2016-17

Local authorities with cumulative spend on commercial property of more than £10 million from 2016-17 to 2018-19



Note

1 Between 2016-17 and 2018-19 there were 201 district councils, and 151 single-tier and county councils. We exclude City of London.

Source: National Audit Office analysis of CoStar data. See Appendix Two for more information

Spend outside of area

Figure 11

Location of commercial property acquisitions by English local authorities – cumulative spend from 2016-17 to 2018-19

Local authorities spent £1.4 billion (20.8% of their total spend on commercial property) acquiring property outside of their region in the period 2016-17 to 2018-19

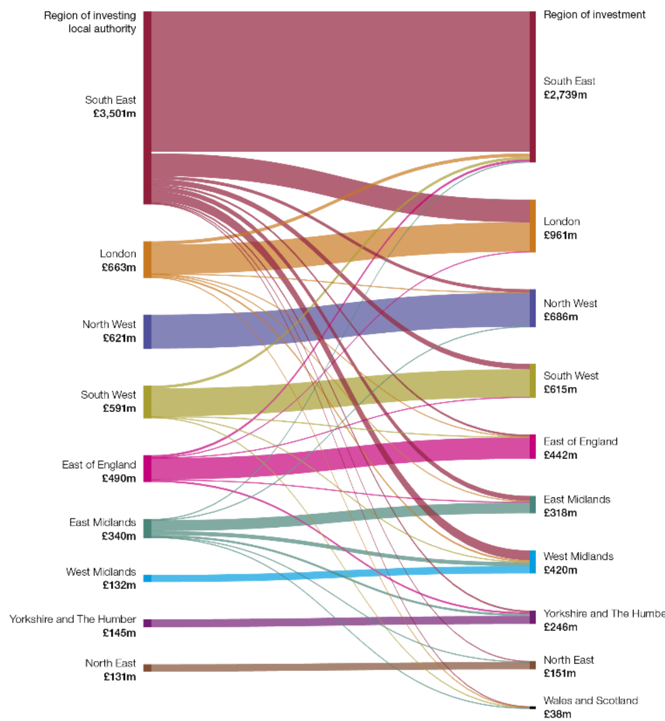
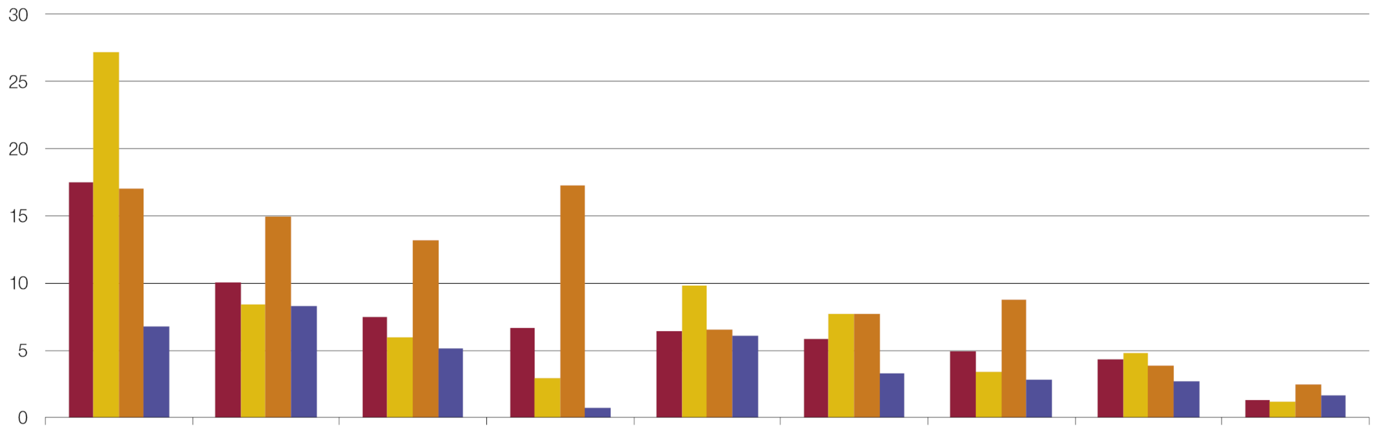


Figure 20

Local authority acquisitions as a share of total market activity by region and property types – 2016-17 to 2018-19 cumulative

The significance of local authority activity varies substantially across different regional and property type markets



	South East	South West	North West	North East	East Midlands	East of England	West Midlands	Yorkshire and The Humber	London
All property (%)	17.5	10.0	7.5	6.7	6.4	5.8	4.9	4.3	1.3
Office (%)	27.1	8.5	5.9	2.9	9.8	7.7	3.4	4.9	1.2
Retail (%)	17.1	15.0	13.1	17.2	6.5	7.7	8.8	3.9	2.5
Industrial (%)	6.8	8.3	5.2	0.7	6.1	3.3	2.8	2.7	1.6

Note

1 'All property' comprises office, industrial, retail and 'other' properties. Local authority acquisitions of 'other' properties formed 2% of the national market share during this period.

Source: National Audit Office analysis of CoStar data. See Appendix Two for more information

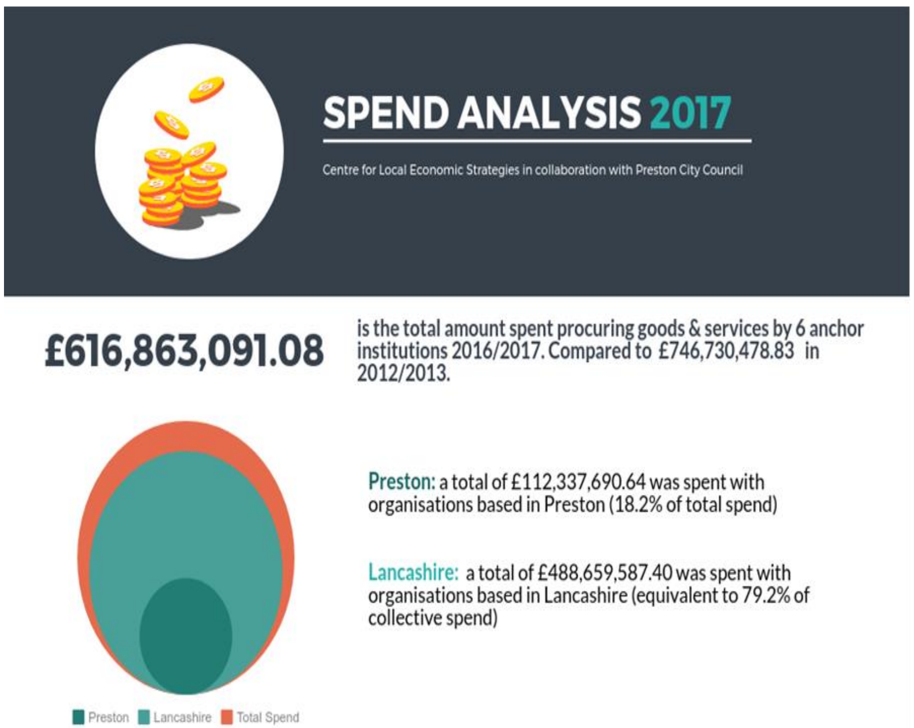
Why be the lead for the local area?

- Investment returns?
- Developer inaction – loss of regeneration potential?
- Anchor investment to bring in others?
- Developer banking of sites
- Retail decline?
- 300,000 – 400,000 retail job losses

Recognition of mixed developments

- Changing face of retail
- Dwell time in malls – circa 3 hours
- Leisure and Culture – 20% of space
- Developers will want to let 75% of space before breaking ground

An alternative approach to big developers?



Motivations

- Income generation?
- Regeneration
- Both?

Powers and borrowing

- Range of powers including Power of General Competence
- Borrowing – reliance on public works loans board
- Increase of 1 % (100 basis points)
- Prudential codes

Reasons to be scared…

Debt ratios

- The NAO identified a group of district councils (8% of all districts) with median gross external borrowing levels going from 3% to 756% of their spending power
- Serious concerns about dent repayments
- Economic downturn and risk exposure

Changing face of local government finance

- Reliance on council tax
- Reliance on business rates
- Property based taxes
- Both decrease in left behind towns……

Positives?

- Growth in business rates?
- Lower returns may still generate community wealth outcomes
- Make places more attractive to future development and house building
- Councils can act as lead developer – but need not be the long-term 'manager' – head lessor role?

Managing risk

NEW MUNICIPALISM

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