

2 July 2021

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Dear [REDACTED]

Greater Cambridge Local Plan and Retail Evidence Base Response on behalf of Universities Superannuation Scheme

On behalf of our Client, Universities Superannuation Scheme Ltd (“USS”), we are writing in advance of the Greater Cambridge Shared Planning Service’s (GCSP) forthcoming Regulation 19 Preferred Options public consultation on the Greater Cambridge Local Plan.

This letter follows a request from GCSP for data and insight into the retail environment in Cambridge and the current and future status of Grand Arcade Shopping Centre to inform the retail evidence base, the Cambridge Retail Study, and the Local Plan. This letter has been drafted in the understanding it will be placed in the public domain.

By way of background, Grand Arcade is Cambridge’s leading shopping destination with a selection of over 60 premium and high street retailers located in the historic core of Cambridge City Centre. Grand Arcade is owned and managed by USS and Cambridge City Council is the freeholder.

Joint Statement with ASI, Lion Yard Shopping Centre

A joint statement with Barclays Nominees (George Yard) Ltd c/o Aberdeen Standard Investments (ASI), owners of Lion Yard Shopping Centre, has been prepared which sets out the joint view as to what is required to ensure the continued and future success of Cambridge City Centre.

This focuses on an overview of the retail environment, Cambridge’s retail market, the need for flexibility in emerging planning policy and the Cambridge Retail Study.

This note then goes on to set out the specific impacts of structural changes in the retail market and the pandemic on Grand Arcade.

Retail environment – current national trends

The recent structural changes in retail have been well publicised; retail is evolving as a result of technological innovation and changing consumer preferences. Such change, however, has been amplified by the COVID-19 pandemic ('the pandemic').

The true impact of the pandemic is yet to play out on our high streets, in town centres and shopping centres, however, it has already been recognised that it has accelerated and decelerated a number of existing trends including¹:

- Increased focus on localism;
- Greater commitment to small (local) independent businesses;
- The development of re-commerce and independent fashion operators in response to fast fashion and environmental concerns;
- More focused shopping trips;
- More value placed on the self and socialising rather than consumerism;
- Increased number of Company Voluntary Agreements (CVAs); and,
- Oversupply of retail space.

All this points to retail currently being in a state of flux. Shops have been closed for much of the past year resulting in reduced footfall, a further increase in online shopping, permanent closure of stores, loss of jobs, rent holidays and the reduction in value of shopping centre assets. This has exacerbated an already struggling market.

It is predicted that *"the upheaval facing retail still has some distance to run and things are likely to get worse on high streets, shopping centres and retail parks before they start to get better"*².

It is however recognised that despite this upheaval, there is an exciting albeit different future for our high streets and town centres, if changes are embraced. The key is to recognise the need for and to embrace flexibility of uses, as has been promoted in national planning changes.

Impact on space requirements

One of the major structural issues within the retail industry is the oversupply of retail and leisure space, supply is currently outstripping demand. Administrations and CVA's are continuing. There is recognition that space within our high streets need to be repurposed, bringing a wider mix of uses to ensure the future vitality and viability of traditional retail areas to entice shoppers back to the city centre rather than

¹ What next for the high street? Part Two: A revival, Deloitte LLP, January 2021

² What next for the high street? Part one: The way things are now, Deloitte, January 2021

remain online. Evidence from the Local Data Company shows how stores have been closing at an increased rate since 2012.

The recognition of oversupply (see Figure 1 below) should be reflected in the emerging Cambridge Retail Study given the timeframes since the publication of the last Retail Study (2013).

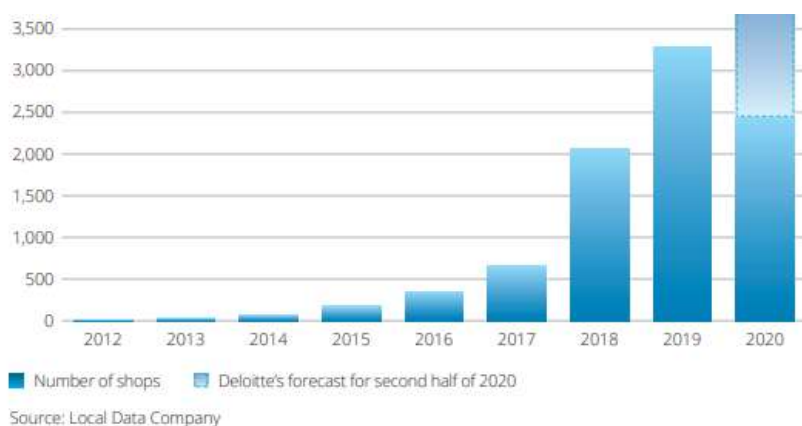


Figure 1: Number of shops demolished or permanently removed from the market (2012 to H1 2020)

Source: What next for the high street, Part Two: A Revival, Deloitte, January 2021

An increasing amount of occupiers report that retailers want to pay rent as a percentage of income rather than a fixed rent. Furthermore, rather than re-negotiate leases, retailers are vacating premises at the end of the lease and waiting until a suitable or preferable location becomes available in a centre given the increase in vacant units. In the meantime, they rely on their online presence. Other occupiers are going online only, such as the recent announcement by GAP.

The declining demand for retail space and the need to re-purpose stores, emphasises the responsibility to ensure flexibility in both uses and space in town centres to help them not only survive but to thrive both in the current climate and in the future.

There is a need to address these changes and to meet the demand for other uses that will contribute to the vitality and viability of our centres. This means looking to the future, not the past, in how we plan for our town centres.

If a flexible approach is not taken, Cambridge City Centre will not be able to react and evolve in line with emerging trends. This will result in it struggling to attract both visitors and retailers.

Impact on Shopping Centres

Research undertaken by Deloitte sets out that shopping centres appear to have been hit the hardest by the changes to the retail sector³ with a current vacancy rate of 15.6% (similar to 2013 levels), as shown below in Figure 2.

³ What next for the high street? Part one: The way things are now, Deloitte, January 2021

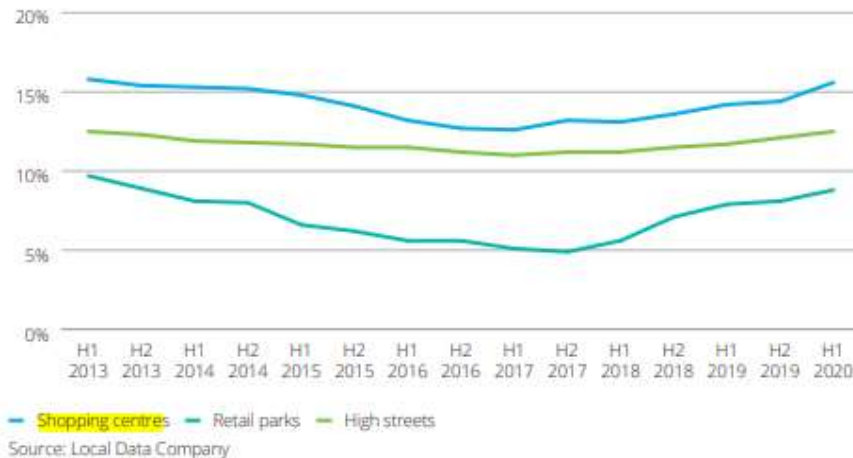


Figure 2: Vacancy rate by location type

Source: What next for the high street, Part Two: A Revival, Deloitte, January 2021

“Shopping centres are as fragile as city centres and will need to work hard to recover permanently the ground they have lost over recent months if, indeed, that is possible”. In particular, it is thought they will need to work harder than high streets to keep the experience attractive and relevant to their customers.

This has been amplified by department stores, the anchors of shopping centres, having been particularly hard hit and becoming increasingly difficult to sustain, *“since the start of 2012, 726 department stores have closed down with more than 40% of them located in high streets and town centres”*⁴.

Often, shopping centres have historically relied on flagship stores to drive footfall and attract occupiers. They are dependent on footfall and consumers making a specific trip.

The future of department stores has been mixed; some have remained closed while others are in the process of being repurposed. Making them viable is challenging given their inherent existing use value and therefore the support of a pro-active Local Authority is essential.

The use of traditional retail space for alternative uses must be accepted, promoted and supported to ensure that the space can be repurposed and contribute to the vitality of the town. Such uses include repurposing for residential, offices, leisure (such as Debenhams, Oxford Street), hotels, cinemas or life sciences.

Recent case studies of alternative use strategies for department stores include the Rylands Building (a former Debenhams store) and the Kendal Milne Building (former House of Fraser) in Manchester (both listed). A planning application for The Rylands Building sought to carve up the building into a shopping arcade on the ground floor, with the bulk of the building to become offices. Planning permission for the Kendal Milne Building includes the conversion, alteration and extension of the building and the erection of a 14-storey building to the rear and multi storey car park. Commercial units will be located on the ground floor supported by upper floor offices.

⁴ What next for the high street? Part one: The way things are now, Deloitte, January 2021

The department stores that continue to operate, are being underpinned by preferential commercial terms by landlords to enable such large retail operators to operate. The impact of this on landlords should not be underestimated and a department store's presence should not be taken for granted.

There is also a need to recognise that just because one department store has closed in one centre e.g. John Lewis in Peterborough, it does not necessarily follow that shoppers will automatically visit other nearby retail centres which still have a department store. The recent decline in the number of department stores operators and stores themselves attests to the fall in demand for department stores. It is the mix of uses that will entice visitors who can add a visit to a department store as part of a day out.

Furthermore, retail agents are also reporting the following trends in demand for space in shopping centres as a result of recent changes. We expect this will evolve during the period to adoption of the Local Plan:

- Increase in NHS/GP surgeries;
- More office space;
- Garden Centres within shopping centre car parks;
- Demand for new job centres;
- New leisure concepts;
- Last mile logistics;
- Dark kitchens (moped access required);
- Student accommodation;
- Hotels;
- Serviced apartments (e.g. Edinburgh St James);
- Other tech/apps entering the market – e.g. Weez who have started in London but are now looking at regional cities.

There is increasing demand and opportunities for alternative uses in shopping centres, often at reduced rents.

There are also additional pressures from environmental, social and governance (ESG) on leases. This pressure is felt by both landlords and tenants to address sustainability requirements which has an added pressure to tight margins.

Cambridge Retail Market

Cambridge is recognised and renowned for being a successful retail destination both nationally and internationally (one of its many attributes). It is a top retail destination due to the affluent population, student population, tourist draw and international business alongside its historic charm which continues to draw visitors.

Cambridge is, however, not unaffected by the changes to the structure of retail or the pandemic. Whilst it has historically benefitted from low vacancy rates, these rates have increased. Like the national picture, there are too many retail units in Cambridge. Many of these are small units in historic buildings which do not meet the needs of national retailers. The listed nature and planning restrictions often result in the occupancy being challenging.

Recently the Cambridge City Centre Business Improvement District ('BID') has focused on supporting locals and independents to occupy these units and to encourage increased take up. However, a cautionary note is often high business rates are seen as a barrier to entry.

In addition, the significant reduction in tourists/students throughout the pandemic has had an impact on the city centre resulting in reduced revenue/footfall. Whilst, there has been an increase in the number of staycations, this has not mitigated the impact of reduced international tourism which is supported by the reduction / removal of taxes on goods. It will be important to track the level of international tourist and student spend once the pandemic has passed and what this means for Cambridge.

The recent announcement of the Grafton Shopping Centre being put up for sale⁵ and the indication that it may be converted to alternative uses, highlights the difficulties of the retail market in Cambridge. This further strengthens the importance of the historic core as the centre for retail and leisure uses that drive footfall and provide the entertainment core for the city centre.

Travel, car parking and the associated high parking costs, continue to be significant issues for customers, visitors and staff. The closure of the park and rides during lockdown have caused particular issues for staff parking. Good quality, efficient, reasonably priced transport access to service the city centre needs to be addressed in the long term, particularly as footfall is starting to pick up with the return of better weather. This will help contribute towards the Local Plan sustainability goals which includes net zero carbon.

The need for flexibility in future planning policy

Cambridge cannot stand still based on its past retail success. There is a need to address the current structural changes in retail, respond to the pandemic and embrace future trends.

Planning policy must proactively plan for the future. The emerging Local Plan provides an opportunity to embed policy that reflects the reality of the changing retail market now and in the future. In order to address future retail environments, the key to future policy is flexibility to ensure the Council is proactive rather than reactive. Planning policy should reflect national changes and recognise Cambridge City Centre needs to become a mixed-use location.

The question the Local Plan will need to address is **how** it can provide flexibility for further innovation and change over the lifetime of the plan alongside proposed national changes to planning policy.

The city centre should be a curated space, proactively planned. This can only be achieved by the use of real time data to help drive decision making both currently and in the future. A Retail Study that is based on the old approach will no longer be fit for purpose in a dynamic shopping environment.

Cambridge Retail Study and the use of data to support high streets and town centres

It is noted that Cambridge's Retail Study is in the process of being updated, with the bulk of the research and data collection being undertaken prior to the pandemic. The information is therefore already out of date and it is short sighted to assume it will bounce back to these levels.

The information contained within retail studies, while a useful starting point, is just that. It cannot solely be relied upon to capture the needs of our high streets. In particular, given the timing of the Cambridge Retail Study and the scheduled Local Plan Examination, winter 2023, the Local Plan needs to be informed by more up to date evidence. We understand that there is no plan to update the emerging Retail Study at present ahead of the Local Plan Examination. This is considered to be a missed opportunity to reflect on

⁵ <https://www.cambridge-news.co.uk/news/cambridge-news/41-shops-risk-grafton-centre-20843394>

retail changes and the subsequent impact (e.g. the pandemic, increase in online shopping/home deliveries and increase in online only retail brands).

One such route to ensure an update to date evidence base is the use of new data sources to quantify future high street needs, identify future uses, create a successful urban environment and ensure partnerships and engagement¹.

Due to technological innovation there is an abundance of new datasets which can be used to view a real-time position on the health of the high street and help anticipate future demand. This includes geospatial and demographic information. These datasets combined with the knowledge held by Greater Cambridge Shared Planning Service and local stakeholders could offer a better understanding of Cambridge to inform planning policy decision making in real time.

Cambridge has an opportunity to use data proactively to create a more complete picture of consumer behaviour. This has never been more important given the impact of the pandemic. It provides an opportunity to complement the Retail Study to ensure that policy and decision making is up to date. There is a need to work together to share data sources to help secure Cambridge's future and recognise and respond to the knowledge that each high street is unique with different challenges and opportunities.

Current planning policy

Policy 10: The City Centre

Adopted Local Plan Policy 10 remains relevant in light of recent and proposed changes to the planning system. The emerging Greater Cambridge Local Plan must ensure that Cambridge City Centre is the primary focus for developments attracting a large number of people and for meeting retail, leisure, culture and other needs such as office and residential as a multi-functional regional centre.

The Primary Shopping Area must remain at the forefront of meeting needs within Cambridge.

Policy 11: Development in the City Centre Primary Shopping Area

Adopted Local Plan Policy 11 sets out the acceptable uses within the Primary Shopping Area, the provisions for a change of use and the percentage of A1 shopping frontage.

This Policy is out of date following the revisions to the Use Classes Order (UCO) brought into force in September 2020. The provision of Use Class E is the most significant change to the UCO. Use Class E amalgamates retail, food and drink, financial institutions and office uses within Class E thus providing additional flexibility for landlords and tenants. A change of use within the same use class, in this case Class E, does not constitute development and is outside the control of the planning system.

The aim behind this change was to increase flexibility, diversity and enable greater adaptability to better reflect changing town centres.

It is considered that any future policy within the Greater Cambridge Local Plan must acknowledge the amendments to the UCO and the rationale behind it. It would be counter-intuitive and detrimental to the future of Cambridge if additional restrictions were to be placed on the primary shopping area, restricting change of use beyond the Use Classes Order.

Furthermore, in light of the recent news regarding the Grafton Centre sale, the retail core should be reviewed to assess whether it should exclude the Grafton Centre if it is to become repurposed. The traditional approach to primary and secondary shopping areas should also be reviewed to determine whether it is still relevant.

A new approach to this policy will be required that would support an evolving city centre, enabling flexibility of uses in the long term. If Cambridge does not embrace the city centre as a mixed-use location and meet changing trends within planning policy and planning decision making, occupiers will look to other centres.

In summary, the key for both ASI and USS is:

- flexibility to react to and embrace change;
- the ability to provide a mix of uses to attract visitors to the town centre beyond retail such as food, leisure, entertainment, office, hotels, residential etc;
- the use of data to monitor, inform and embrace changes in retail;
- recognition that Cambridge's retail environment is changing with long lasting implications on the shopping centres and their future plans; and,
- the need for a reactive and flexible planning environment.

Grand Arcade Shopping Centre

In light of the above, we turn our attention to Grand Arcade responding to the questions posed by GCSP.

How is Grand Arcade performing compared to pre-pandemic?

Grand Arcade has inevitably been impacted by the pandemic. The number of vacancies has notably increased from 2% in January 2020 to 13% in January 2021.

This has been amplified by subdued occupier interest over the last twelve months. It was noted that when enquiries were received by Grand Arcade's letting agents, they were from local mid/ market occupiers. However, interest is starting to increase, including from multiples / international retailers, although this is still tentative. The increase in vacancies and the decrease in interest and new tenant signings exemplifies the impact of the changing retail market combined with the impact of national lockdowns resulting in store closures.

The Agent reports that the retailers who have performed the best in lockdown are discounters, convenience and home improvement retailers. Bricks and mortar fashion retailers have been significantly disrupted by the further growth in online shopping and the pandemic.

It is thought that subdued occupier interest is reflective of low footfall. Footfall is still c.40% behind 2019 levels. However, shoppers have a higher sales conversion rate (30%) compared to pre-pandemic rates (10%). This implies shoppers have made a specific trip to spend rather than just browse.

Many of the retailers within Grand Arcade have, as a result of the pandemic, been subject to CVAs including (Café Nero and All Saints) or have gone into administration including Topshop, Laura Ashley, TM Lewin, Carluccios, Victoria's Secret and Daniel Wellington. It is expected that further CVAs are likely this summer.

The consensus amongst Agents is that the pandemic has accelerated the changes in the retail market, by approximately ten years. There is a requirement for fewer stores, downward pressures on rent, shorter leases, increased capital expenditure needed from landlords to attract the best retailers and retail destinations becoming more multi-purpose (increasing polarisation between prime retail locations and the rest).

In summary, Grand Arcade has been negatively affected by the pandemic.

How shopping centres may need to change to take into account Covid-19, changing consumer working habits and changes to the planning system?

A fundamental change to shopping centres will be to move towards a wider variety of uses and services. Shopping centres will not be able to rely on their traditional function of being anchored by fashion occupiers, particularly with the decline of the department store.

It is recognised there is not a one size fits all solution to changing the tenant mix and the income profile of a shopping centre. Each shopping centre must respond to the local market conditions, local stakeholders and requires flexibility to adjust to the changing market conditions. There are lots of recent examples of the re-purposing of department stores:

- Debenhams at Highcross;
- University of Gloucester re-purposing Debenhams into a teaching campus;
- Debenhams, Orchard Street, Leeds – flexible office space and student accommodation; and
- Queensgate, Peterborough- repurposing of upper floors for a cinema.

Grand Arcade is reviewing their tenant mix and responding to retailer demand (or lack thereof). It is likely there will need to be an increasing mix of non-retail uses within the shopping centre to drive footfall in the long term. It will need to provide entertainment and experiences to be able to compete with online shopping and draw visitors in the city centre. If Grand Arcade does not respond or is restricted in its ability to be flexible to different uses that will provide a differentiator, it will not be able to adapt to the changing retail market.

How do you think the city centre should evolve / adapt including changes to the planning system?

In order to create a successful city centre that caters for both the local population, students and tourists the city centre should adapt to provide a variety of uses. This should include both day and night-time economies by increasing the residential, office and leisure offer. Retail should be focused in the historic core to survive. The surrounding service centres should not compete with the historic core. The city centre can however, only adapt, if it is given the flexibility to respond to the changing environments both now and in the future. The retail environment needs to be regularly monitored and analysed through the collation of up to date data that gives real time information on how the city centre is performing.

Given the speed of change and the longevity of the proposed Local Plan, it needs to be forward thinking and enable change. It should recognise that in the long term the amount of retail may decrease within Cambridge City Centre as the mix of uses increases. This would allow for the right size and amount of retail supported by a strong alternative offer that attracts visitors to the city centre.

Alongside the mix of uses that need to be offered, the transport strategy for Cambridge remains to be of significant importance. There needs to be a strong focus on resolving existing pressures, particularly around car parking and especially in light of the preference for the private car in the current climate.

Grand Arcade's retail agents are noting that retailers are being far more detailed in their analysis of where to take a physical store which includes local parking rates, access for staff and a commercially supportive Local Planning Authorities all have a bearing on where new stores will be located. Cambridge is competing against other major cities in trying to attract the best retail and leisure occupiers. Cambridge's retail position should not be taken for granted, action needs to be taken to protect it and secure its future.

There are a number of changes to the planning system which need to be factored into the future of the city centre and will help support the need for flexibility. This includes the changes to the use classes order. These changes should not be undermined, and it should be recognised what they are trying to achieve.

Further changes to the planning system are anticipated in the short term as set out in the Planning White Paper. This further emphasises the need to the city centre to be flexible to respond not only to changing consumer habits and innovation but future planning policy. Planning policies prior to the introduction of Class E are, on the whole out of date and need to be re-envisaged to take into account the new possibilities and implications of the broader use class categories.

If you have any queries in regards to these comments, please do not hesitate to contact myself or my colleague ([REDACTED]). In the meantime, I would be grateful if you could confirm receipt of this letter.

Yours sincerely

[REDACTED]

Deloitte LLP