

Planning causes supermarket productivity loss

Town Centre First policies and restrictive local application of planning policies reduces retail productivity, according to research in the supermarket sector

Key findings

- Total factor productivity (TFP) in supermarkets increases with store size, making larger supermarket stores more productive.
- More restrictive local planning regimes increase the price of retail space in all locations, generating smaller and thus less productive stores.
- The cost of land for supermarkets in Britain is at least five to ten times greater than in similar Continental European countries.
- English Town Centre First policies have caused a significant reduction in total factor productivity in retailing, at least for the supermarket sector, since the late 1980s. The cumulative impact on store productivity indicates a loss of 16 per cent by 2006.
- Since the late 1980s the total loss of TFP has been more than 20 per cent, if the impact of variations in the local restrictiveness of planning policies is taken into consideration
- Store productivity decreases for English stores founded after 1986, with the newest stores being the least productive of all – likely due to being forced onto smaller and less productive sites.

Background

Strong commercial pressures led to the development of large-scale car-based shopping centres located outside town centres from the late 1970s onwards. The increasing number of out-of-town shopping centres influenced the introduction of formal planning restrictions in England and Wales in the late 1980s.

The Town Centre First policy which became rigidly formalised and enforced in England from 1996 went one



step further, redirecting retail developments to sites in town centres. This policy was introduced to improve access to retail stores by public transport – partly with the aim of safeguarding access for poorer households and partly to reduce overall energy use. Potential out-of-town developers had to show that not only were suitable sites in town centres unavailable, but that the local community had a ‘need’ for more retail space.

Researchers at the Spatial Economics Research Centre have analysed productivity in the retail sector in terms of total factor productivity, or TFP (a variable which measures the output/input ratio – how much output is produced with the inputs used). Previous findings suggest that larger stores lead to higher TFP, and the researchers sought to confirm whether planning policy has led to reduced store size, and whether a drop in productivity could be estimated.

By comparing the pattern of productivity in English stores with those in Northern Ireland and Scotland, where restrictions on out-of-town stores were less strict and introduced later, the researchers could estimate the impact of Town Centre First policies on productivity.

The research had access to a rich dataset of 357 stores from a major supermarket group. The data included information on store format, floor space, sales, opening hours, staff numbers, amount of parking space and geographical location. Stores ranged from 'small stores' of 25,000 square feet to 'super centres' of 85,000 square feet.

Policy relevance and implications

In weighing the value of policies it is essential to have as precise a measure of their costs as possible and equally a clear measure of their benefits. This is the most precise measure yet of productivity costs in the retail sector stemming from English planning policies – particularly Town Centre First (TCF) policies.

- Eliminating the 'needs' and 'sequential' tests and allowing supermarket development on larger sites close to major highways would produce major efficiency gains in the sector.
- Town Centre First policies are unlikely to deliver on the two explicit goals of improving access to shops for poorer households and encouraging the use of public transport for sustainability.
 - By reducing productivity and raising prices in shops – notably supermarkets – TCF policies will adversely affect the poor, since poorer households spend higher proportions of their incomes on supermarket purchases.
 - Since warehouses are located close to major roads, TCF policies push retail logistics to more and longer journeys in smaller lorries in more congested conditions. They also push the majority of shoppers using cars to more frequent and time-consuming trips in more congested conditions.

Further stages of this research will more rigorously evaluate the impact of the policy in terms of the carbon footprint of retail. ■

Brief description of the research

The research report 'Evaluating the Effects of Planning Policies on the Retail Sector: Or do Town Centre First Policies Deliver the Goods?' (SERC Discussion Paper 66) examines whether Town Centre First policies restricting out-of-town retail development have reduced supermarket productivity. The findings suggest that since the late 1980s planning policies in England have imposed a loss of more than 20 per cent in total factor productivity.

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