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26 July 2016

Dear Robert

Partial Update of 2013 Appraisal of Ipswich Town Centre Opportunity Areas Report

Thank you for your instructions to carry out a partial update of our 2013 report – *Appraisal of Ipswich Town Centre Opportunity Areas*. We understand that this work is required to inform the next stage of the Local Plan Examination.

We have now completed our work and set out below our findings.

Market assessment

A brief update on the national market context – covering the occupier, investor and development markets – is appended to this letter (Appendix A). We summarise the key points below.

In recent years, retail development has been limited, as in other commercial property sectors, but the market overall still has an excess of space. A driver behind this situation has been changing patterns of consumer and retailer demand. The key implications of trends in the retail sector for future town centre development in Ipswich can be summarised as follows:

- The continued growth of internet shopping is likely to impact on footfall and squeeze retailers' profitability (this is a UK wide issue), so the Town Centre will need to offer a wider, all round experience.
- Ipswich Town Centre will be affected by the polarisation and downsizing of national multiple retailers, especially in terms of its ability to attract new such retailers.
- The importance of providing for scale, flexibility and a variety of store sizes in order to respond to the needs of major retailers.
- Key to attracting new modern retailers will be creating the right conditions for investment, such as high quality public realm.
- The increasing importance of leisure (including food and drink) uses in order to maximise the consumer's experience and dwell time in the Town Centre.
- New representation in the grocery sector is likely to be focused on smaller formats, with growing requirements from the hard discounters (e.g. Aldi and Lidl), in response to changing shopping habits.

Town Centre healthcheck

This section reviews the current health and performance of Ipswich Town Centre taking into account three key indicators, namely:

- Town Centre ranking;
- Town Centre vacancies; and
- Retailer demand.

We consider each of these indicators in turn below.

Town Centre ranking

A key indicator of the vitality and viability of a centre is its retail ranking over time. *Figure 1* below indicates the current status of Ipswich Town Centre relative to the comparator centres identified in our 2013 report. Each centre is assessed (by CACI Retail Footprint[1]) having regard for all factors affecting performance, including the quality and quantity of retail provision, centre function and level of competition. This methodology allows each centre to be scored relative to one another and provides a useful barometer of a centre's status and performance.

Figure 1 – CACI Centre Rankings

Centre	*2015 CACI Rank*	*2013 CACI Rank*	*Movement (2013-2015)*
Ipswich	**56**	**50**	**-6**
Bristol	19	19	0
Bath	26	26	0
Cardiff	27	24	-3
Cambridge	31	30	-1
Exeter	36	42	+6
Norwich	20	18	-2
Bury St Edmunds	98	82	-16

Source: CACI Retail Footprint Rankings 2013 and 2015.

Figure 1 indicates that Ipswich Town Centre has fallen 6 places in the CACI rankings since 2013 and, importantly, outside the top 50 centres. This reflects the relative lack of retail development and investment in the Town Centre over this period. Those centres which have risen most in the rankings have benefitted from major retail development (e.g. John Lewis Exeter opened in October 2012 and has substantially improved Exeter's status and performance).

Town Centre vacancies

The most up-to-date information from Experian Goad[2] reports 112 vacant outlets in Ipswich Town Centre, equating to a vacancy rate of 20.2% (relative to 17.5% in 2013). The current vacancy rate is higher than the UK average (12.2%).

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[1] We no longer subscribe to Venuescore and therefore we have provided rankings from CACI Retail Footprint.
[2] Goad Centre Report – Ipswich Town Centre (October 2015).

Some 22.3% of total floorspace in Ipswich Town Centre is currently vacant (relative to 20% in 2013), which is more than double the UK average (10.2%).

These findings of increased vacancies over the period 2013-2015 correlate with the relative decline of Ipswich Town Centre in the retail rankings (as identified in *Figure 1* above). However, we would caution that Experian Goad's survey in October 2015 coincided with the refurbishment works to the town's main shopping centre – Buttermarket. Whilst the level of vacancies identified above is therefore likely to be over-stated to a degree, we would maintain that Ipswich Town Centre has above-average vacancies.

Since our 2013 report, key closures include Next, Gap (re-occupied by the Primark extension) and most recently, BHS.

Retailer demand

Having checked the usual national databases including CoStar and Promis, there are no published retailer requirements for Ipswich Town Centre. This does not necessarily mean that there is no current retailer interest in the Town Centre (other UK centres also have no published retailer requirements).

Westgate site

A prominent part of the Westgate site, the Old Crown Court and the former police station site to the south, is now in the ownership and control of Ipswich Borough Council. The former police station site has been cleared for redevelopment following the relocation of police activities. We further understand that Charterhouse Investments LLP have purchased the site to the north from Turnstone Estates with a view to progressing a retail-led development. A site ownership plan is appended to this letter (Appendix B).

The Council's ownership interest is a significant positive change since our 2013 report, which noted the importance of land assembly to enhance the viability of any future scheme. There is an opportunity for the Council and Charterhouse (and neighbouring landowners) to work together to identify and test development options for the Westgate site as a whole, and we understand that time limited planning permissions have been granted so to better align the temporary car parking proposals in view of potential future development opportunities.

Other key changes since our 2013 report, which should serve to strengthen the prospects for a comprehensive scheme at the site, include the proposals to improve the public realm outside the New Wolsey Theatre. Charterhouse have also commenced work on the refurbishment of the underground spiral car park. Combined, these proposals will enhance the commercial attractiveness of the Westgate site.

Our 2013 report identified the need to attract a retail anchor – most likely a foodstore – to the site. Whilst we maintain that a foodstore would help to achieve a viable retail-led scheme, the grocery market has changed considerably since 2013 with the 'Big Four' pulling back from their superstore expansion plans[3] and instead focusing on smaller formats and existing store refurbishments; whilst the principal growth in this sector is being driven by Aldi and Lidl. The type of operator/format most likely to be attracted to the site has therefore changed in recent years, although clearly this is not a site-specific issue.

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[3] Tesco withdrew their plans for a new superstore at Grafton Way, Ipswich.

In terms of the suitability of the Westgate site for retail-led development, it is located in proximity to key anchor retailers including Marks & Spencer, Primark and Debenhams. Improving the site's linkages with this prime pitch would help to create a vibrant, integrated development. The site also fronts onto and is highly visible from the Civic Drive ring road.

Based on the above, we maintain that the Westgate site is the most suitable and appropriate site in Ipswich Town Centre for a comprehensive retail-led scheme. In our view, the site remains commercially more attractive than the Cox Lane Opportunity Area. This is supported by Shearer Properties' decision not to pursue a new retail-led development at Cox Lane while another key landowner, the Co-Op, is considering a non-retail use for their part of the site.

To maximise the prospects for a comprehensive retail-led scheme to be delivered at the Westgate site, there is an opportunity for the Council to work proactively with Charterhouse to achieve this, alongside deploying appropriate supportive planning policies and other corporate actions. As well as planning for new town centre development at Westgate, the Council should seek to control new retail development (including extensions and changes of use) in edge/out-of-centre locations. Competing retail development, individually or cumulatively, may have significant effects on the decisions of retailers who may be considering whether to invest in Ipswich Town Centre, and could therefore undermine the deliverability of a retail-led scheme at the Westgate site. As such, we would advise that any allocations to be made through the new Local Plan for retail development in non-central locations should seek to restrict the sale of particular retail goods and/or the amount of permitted retail floorspace.

Given the fragility of Ipswich Town Centre and the lack of any significant retail development in recent times, we consider that allocating sites through the new Local Plan to accommodate a higher capacity figure would pose a significant threat to the Town Centre's vitality and viability.

We trust that this letter meets the Council's needs, however do please contact me should you require any clarification or further information.

Yours sincerely,

Tim Johnson
Senior Director – Development & Planning

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Appendix A – National Market Context

Appendix B – Westgate: Site Ownership Plan

Appendix A – National Market Context

Occupier Market

Retail and Leisure

The occupational market remained strong in Q1 2016, with vacancy rates starting to fall; due in part to improving economic activity but also due to changing consumer habits. The sector continues to see rising footfall against declines in other sectors, with a number of retailers reporting expansion plans and new store formats.

Reflecting the continued trend of polarisation between prime retail locations and the more secondary locations, most of the demand for retail space is still centered on the South East and prime space in the top 25 regional locations. However as supply falls, more retailers are considering space in the better performing second-tier locations.

Prime rents and incentives are stable, although rents in the strongest towns are expected to remain under upward pressure in 2016. That said, some secondary schemes are still struggling to maintain current rental levels amid poor demand, while the lack of stock has weighed on activity levels.

Growth in the grocery sector is being driven by Aldi and Lidl, as well as smaller convenience-based town centre formats.

In regards to the leisure market, the outlook continues to look positive with competition driving rents and premiums, buoyed by consumer habits and needs as they seek experiences as much as retail goods. Leisure uses are therefore increasingly important in terms of anchoring town centres and shopping centres. This trend is augmented by e-commerce (e.g. internet shopping, click-and-collect) and the spate of retailer administrations since the economic downturn; most recently, BHS and Austin Reed.

Office

Due in part to the increasingly expensive and constrained market in Central London and the South East, occupier demand across the UK's regions is strong, with take-up increasing by 25% within Q1 2015 (the strongest start to a year since 2000). However, the availability of Grade A space continued to fall in Q4, with a number of locations now facing very low levels of supply. As such, most regions are seeing upward pressure on rents and incentives being gradually tightened. This growth in rents is anticipated to continue, as new higher quality schemes come forward and competition over suitable available space intensifies.

Prime regional yields remained relatively stable throughout the second half of 2015, although there are some signs that investors may be re-evaluating their views on pricing and risk amid growing concerns over global volatility. Cushman & Wakefield forecast that yields will remain relatively unchanged across most markets in 2016, although some softening in yields anticipated in 2017.

Residential

The occupier market has been boosted by the introduction of further Government intervention with extension of the Help to Buy scheme. Despite this, the occupier market across the UK remains fragmented and influenced by a number of factors such as location, price, type of asset and tenure.

Across London and the South East the long-run issue of under supply continues to inflate prices. In the South East and Eastern regions, spill out from the capital has seen house prices rise and surpass previous levels; growing 8% to 9% year-on-year which is unlikely to be sustainable in the long term.

At a UK wide level Cushman & Wakefield predict house price growth of 19.3% by 2020. This ranges from 12.6% in Scotland to 25.2% in the South East. The key housing market drivers seem unlikely to change in the short term with a lack of stock compounded by robust demand.

Student Housing

The occupier market remains strong with one million students now studying away from home, leading to rising demand for purpose-built student accommodation (PBSA). PBSA peaked at 539,200 units in 2015, an increase of 19,300 units since 2014 with bed spaces provided by the private sector up by 28%.

At the end of 2015, the top 10 private operators of student accommodation accounted for 62% of total bed spaces on the market. Unite remains one of the largest occupiers with more than double the amount of their nearest competitor, Liberty Living (42,000 units compared with 19,000 units).

Rental growth continued in 2015, up from 2014 levels by a 6% average across all PBSA (although this varies across the geographical regions). The average rent of privately supplied stock has increased by 7%, with a 3% increase in rent for university supplied accommodation. Average studio rents in the private sector were up by 3% and cluster flats achieved a 6% rise.

The main theme in the UK student housing market is variation across the occupier market with huge disparity in rental growth and supply. Cushman & Wakefield predict that it may take some time for the occupier market to adjust to this and absorb the differences. Further to this some concerns are already being raised over occupancy levels in some locations.

Investor Market

Retail and Leisure

During 2015, UK funds and institutions and overseas private equity investors continued to show strong appetite in core locations. There was also greater interest for well-let assets in certain second-tier markets. Investor appetite for secondary stock has waned, however, with some buyers now fully invested and others becoming increasingly sensitive to pricing and location. Whilst funds and institutions are dominating activity in the out-of-town sector, private equity buyers and opportunity funds have emerged and are mainly targeting attractively priced assets in second-tier and secondary locations.

Investors are also growing more confident in the underlying strength of the high street occupational market, with the sector being relatively cheap whilst offering strong potential for capital and rental growth. This has boosted activity in the sector, with total volumes for 2015 estimated to have reached £1.4bn, the strongest performance since 2010. As such, although prime yields are largely stable, some high street locations may see further compression in 2016.

Investor demand for prime UK shopping centres is also strong, with several significant deals in 2015 (especially Q4) – see below.

2015 KEY SHOPPING CENTRE INVESTMENT TRANSACTIONS

VENDOR	PURCHASER	SCHEME	TOWN	VALUE (£MN)	INITIAL YIELD
Meyer Bergman	Asian Investor	Bentall Centre (50%)	Kingston	190.0	4.70%
TH Real Estate*	CBRE GI	Angel Centre	Islington	171.0	4.10%
Matterhorn Palos Partnership	Schroders	Kings Mall	Hammersmith	153.0	4.50%
F&C Reit	Scoop & Harbert *	Eastgate Shopping Centre	Inverness	117.0	6.40%
M&G Real Estate*	L&G	The Grafton Centre	Cambridge	99.0	5.25%
F&C Reit	New Frontier Properties & Waypoint Asset Management	Coopers Square / Cleveland Centre	Burton upon Trent / Middlesborough	93.75/ 85.25	6.25%/ 7.25%
Aviva*	IntraRed/Hark	St George's Shopping Centre	Preston	74.55	6.25%
Helical Bar	Edinburgh House / Cerberus	The Clyde	Clydebank	70.0	7.25%
The Carlyle Group/ Bridehall*	HIG	Grosvenor Centre	Chester	65.05	6.35%
Englander Group & Davidson Kempner*	Moorgarth	Broad Street Mall	Reading	62.25	6.85%

*C&W advised

Source: Cushman & Wakefield and Property Data

UK hotel investment reached £8.1bn in 2015 (reportedly the highest level since 2006) with the regional hotel market accounting for 55.6% of transaction volumes. However, in terms of the wider leisure market, transaction volumes are expected to slow-down from 2015 due to a shortage of prime properties coming to the market. As such, prices are expected to remain at current levels.

Office

Central London and the key regional office investment markets are performing strongly. Q1 investment remained in line with the long term average. Funds continue to dominate investment into the sector with listed investors making a return to the market. However, overseas investment suffered a notable decline, particularly in Central London, with investors exploring opportunities in the regions. Overall, yields are relatively stable across all office segments.

Residential

The investor market has slowed in response to the rise in Stamp Duty Land Tax (SDLT). The rush to complete deals before the SDLT deadline resulted in some distortion in the market in 2015. However, Cushman & Wakefield research finds that gross mortgage lending was up 59% year-on-year in March 2016.

Student Housing

2015 was a record year for student investment transactions. In December 2015, circa 43,000 student beds had been transacted with a further circa 15,000 student beds yet to transact. This contributed to a 20% plus rise in the total private sector supply traded. This has largely been driven by the portfolio market (accounting for 82% of all transactions) with many acquisitions from new entrants to the market looking to gain a foothold in the UK market. New entrants to the market in 2015 include Canada Pension Plan Investment Board (CPPIB) and LetterOne Treasury Services (Russia); overall, international capital accounted for 82% of transactions in 2015.

Notable UK transactions include the Brandeaux/Liberty Living Portfolio and Westbourne Portfolio – see below.

Property	Town	Bed Spaces	Price	Purchaser
Brandeaux/Liberty Living Portfolio	UK	16,748	£1,100,000,000	CPPIB
The Nido Portfolio	London	2,521	£600,000,000	Greystar Real Estate Partners
Westbourne Portfolio	UK	5,867	£540,000,000	Greystar Real Estate Partners
Pure Student Living Portfolio	London	2,150	£532,000,000	LetterOne Treasury Services
Student Castle Portfolio	UK	2,153	£330,000,000	CPPIB Liberty Living
Ahli United States Bank Portfolio	UK	2,100	£271,000,000	Unite UK Student Accommodation (USAF)
Assam Place	London	346	£110,000,000	Greystar Real Estate Partners
Paul Street	London	456	£108,600,000	Apache Capital
Union Portfolio	UK	839	£83,000,000	LetterOne Treasury Services
ISL	London	347	£70,000,000	Round Hill Capital

Yields in this sector have hardened across the UK – see below.

Direct Let Proposition £20-50m	Yields
Prime London (Zones 1&2)	4.50/5.00%
Prime London (Zones 3&4)	5.00/5.50%
Super Prime Regions	5.25/5.75%
Prime Regions	5.75/6.25%
Secondary	7.25/8.00%
Tertiary	8.00/10.0%

Development Market

Retail and Leisure

Some 188,000 sq m of new shopping centre space was delivered onto the market in 2015 and this trend is expected to continue during 2016-2017, with 330,000 sq m of shopping centre space currently under construction. Developers are favouring extensions and improvements to existing schemes and this is expected to remain the main source of new supply in the short term.

Cushman & Wakefield's Shopping Centre Development Report (September 2015) comments that the 2016 development pipeline is anticipated to pick up significantly, with an estimated 1.7 million sq ft through six new schemes and four extensions. However, in 2017, development is likely to be subdued due to viability challenges and schemes being deferred, with just 1.1 million sq ft arriving through three new schemes and one extension.

MAJOR SCHEMES IN THE PIPELINE 2015-2017

LOCATION	SCHEME NAME	GLA (SQ.M)	YEAR DUE
Bracknell	Bracknell Town Centre	53,000	2017
Bradford	Westfield Bradford	51,100	2015
Leeds	Victoria Gate	42,000	2016
Chelmsford	Bond Street	27,900	2016
Newport	Friars Walk	23,170	2015
Birmingham	Grand Central	26,358	2015

Office

Cushman & Wakefield's Market Beat Report (March 2016) notes that, in recent years, developers and funds have responded cautiously to the dwindling supply of Grade A office space. The lack of speculative development was particularly acute in 2015, with just 1.6 million sq ft of space completed against a 10-year average of 2.5 million sq ft; the lowest level since 2007.

Savills' Spotlight Regional Office Market Review and Outlook (February 2016) comments that large scale speculative developments have started to materialise within the regions, up by 129% since February 2015, with the highest levels of growth outside the South seen in Manchester (6%) and Leeds (4%).

Residential

The UK housing market has been plagued by decades of declining housebuilding, whilst the population has increased. Over the last 5 years only 140,000 new homes have being completed each year, well below the target average rates.

Developers have been restricted by a number of factors including rising build costs and buyer's access to finance. Developers also face the challenge of growing skills gaps.

Student Housing

Development has been strong supported by the growing investor appetite. The development market may experience a contraction as construction costs are set to rise. BCIS all-in tender price index forecast a 4.9% increase throughout 2016; this is dominated by labour cost inflation. Coupled with this, materials costs are also set to increase following a reprieve in 2015.

Supply is expected to grow. In 2015, some 20,000 bed spaces were delivered to the UK market and this trend is expected to continue as the pipeline for private sector units is strong (with a number of planning consents across the UK and significant plans by universities to invest in their accommodation portfolios). Knight Frank's Student Market Review (2016) suggests that there is a substantial pipeline for delivery in 2016, with the largest pipeline for university and private accommodation being in London. As a result of the rising value of alternative uses (residential and offices), together with rising construction costs, a slowing of development moving forward is anticipated.

The above commentary does not take into account the effect of 'Brexit' on the commercial property sectors. The referendum result brings a significant downside risk and signs of uncertainty are clearly emerging in the UK market, with reports of occupier and investor deals being delayed. However, at this time it is too early to form a detailed view.

Appendix B – Westgate: Site Ownership Plan