

The potential of
sustainable
retail
Appendices



Landsec

5.1 Appendix 1 - organisations interviewed

We'd like to thank the following organisations for their time and contribution to this report.

- John Lewis
- Pret A Manger
- Samsonite
- Sweaty Betty
- Lush
- All Good Things
- M&S
- Estee Lauder
- Hollywood Bowl
- The Restaurant Group
- A.S. Watson Group
- The Body Shop
- CBRE
- Portsmouth City Council
- Glasgow City Council
- Westminster City Council
- Leeds City Council
- Greater Manchester Combined Authority

5.2 Appendix 2 - polling methodology and questions

Sample size: 1001 respondents
 GB representative by age/region/ethnicity/2019
 GE vote
 Method: Online
 Polling company: Bradshaw Advisory, British Polling Council member.

Because only a sample of the full population was interviewed, all results reported are subject to margin of error, meaning that not all differences are statistically significant. For example, in a question where 50% (the worst case scenario as far as margin of error is concerned) gave a particular answer, with a sample of 1001 it is 95% certain that the 'true' value will fall within the range of plus or minus 3% from the sample result. That means that, in simple terms, when results are within $\pm 3\%$ of each other they should be treated as registering the same level of response.

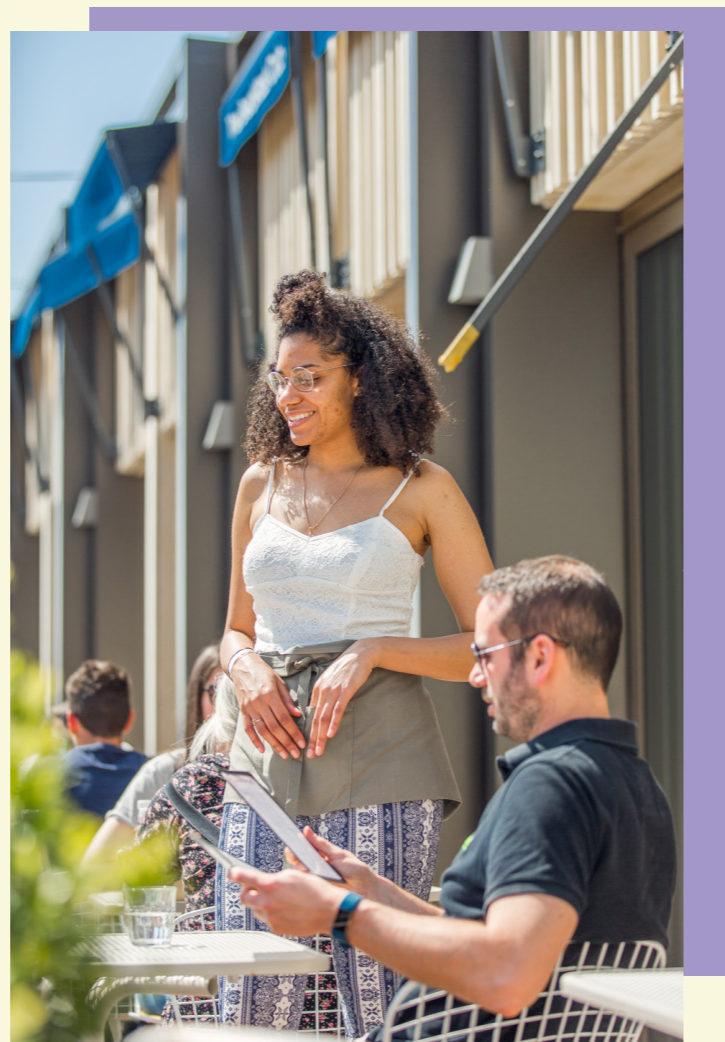
Questions

Q1) Which of the following elements do you consider to be part of making physical retail destinations -

like shopping centres and high streets - sustainable? (Randomise order)

Shopping centres and high streets that incorporate plants and nature
 Running the building on green energy
 Providing local jobs
 Providing local apprenticeships
 Using green suppliers
 Using ethical suppliers
 Selling local products
 Efforts to reduce waste (e.g. recycling)
 Donating to and supporting local charities
 Working with local communities
 Working with local businesses
 Energy efficient buildings
 Other

Q2) Please rank the following items in order of importance for making physical retail destinations - like shopping centres and high streets - where the



first item is the most important and the last is the least important. (Randomise order)

Shopping centres and high streets that incorporate plants and nature
 Running the building on green energy
 Providing local jobs
 Providing local apprenticeships
 Using green suppliers
 Using ethical suppliers
 Selling local products
 Efforts to reduce waste (e.g. recycling)
 Donating to and supporting local charities
 Working with local communities
 Working with local businesses
 Energy efficient buildings

Q3) What are the top three things you like about shopping locally? (Pick three)

Convenience
 Supporting jobs
 Small and independent businesses
 Opportunity to socialise
 Supporting my local high street
 Getting out of the house
 Being able to try products 'hands on'
 Local produce
 Lower prices
 Higher quality products
 Lower environmental impact
 Unique product choice
 Personal service
 Better experience than shopping online
 I don't like shopping locally
 None of the above

Q4) On a scale of 1-5, how likely are you to support or oppose a new retail development being built in your local area or an existing local retail space being refurbished/enhanced? (1= strongly support, 5 = strongly oppose)

Q5) On a scale of 1-5, how likely are you to support or oppose a new retail development being built or an existing retail space being refurbished/enhanced if it followed the 'sustainable' approach? Sustainability being based on the elements you previously selected as being important. (1= strongly support, 5 = strongly oppose)

Q6) When property developers talk about 'community benefits' which elements do you think

are most important? Rank the following from most important to least important. (Randomise order)

Creating local jobs
 Donating to local charities
 Donating to national charities
 Partnering with local community groups
 Enhancing/creating new green space
 Design in-keeping with local surroundings
 Involving local communities in the design of the project
 Creating local apprenticeships
 Providing opportunities for local businesses

5.3 Appendix 3 - modelling methodology

The model underlying the estimations of the value of sustainable retailing for retail brands and local authorities is based on the scenario set out below. This scenario allows a number of simplifying assumptions to be made to the question of what the value of sustainable retail is, allowing for an economic model to be constructed and data fit to it.

We're observing a potential retail brand looking to locate a branch at one of two retail destinations. Each destination and each retail unit in those destinations are of closely comparable sizes. Each destination is located in local authorities which are essentially the same with regards to their socio-economic makeup. Each destination is located in a very similar location in each local authority, which, holding all else equal would see each have similar footfall figures.

The key difference between the locations is that one is a sustainable retail destination and the other a 'traditional' retail destination. The traditional retail destination has a retail mix largely reflective of the UK's retail mix as a whole, with a tilt towards larger, organised retailers. Here, the retail brands compete most heavily on price and convenience.

The sustainable retail destination has a slightly broader focus - defined by what we already know about sustainable retail, and the key themes uncovered through the polling and research interviews shared earlier in this report. The sustainable retail destinations has sustainability and energy efficiency concerns built into the design and operation of the site. It maintains a retail mix which reflects the destination's concerns about the environment, as well as the value it places on local businesses and supply chains. There's also a

greater emphasis on experience, with design which provides easily navigable environments, pleasant aesthetics and ambience, as well as a greater incorporation of hospitality and entertainment into its retail mix. A key enabler of sustainable retail destinations is collaboration – consumers, brands, local authorities and landlords working together for a sustainable future.

The model focuses first on how differences in footfall would arise between the stores in each location, how these would translate into revenues. We also consider the impacts of location decisions on operating costs and are thus able to derive estimates of profit effects. From these figures it is then possible to predict how differences in GVA would emerge across the two locations.

We assume that footfall levels for a given retail brand in both destinations is driven by:

- Macroeconomic conditions
- Socioeconomic makeup of the local area
- Placement of the retail destination within the local shopping environment
- Retail unit/brand specific features
- Spillovers from other retail brands
- Destination design factors
- Destination marketing and consumer preferences around sustainability

Based on the scenario, it can be assumed that the first four factors are the same for each location and that differences in footfall between the sustainable and traditional retail destinations will be driven by the latter three factors.

The footfall for retail brand *i* at retail destination *d*, during time period *t* can be expressed as:

$$\text{Footfall}_{i,d,t} = \beta_0 + \beta_1(\text{Fixed factors}_{i,d,t}) + \beta_2(\text{Neighbour performance}_{d,t}) + \beta_3(\text{Sustainability preference}_{d,t} * \text{Knowledge}_{d,t}) + \beta_4(\text{Design factors}_{d,t})$$

Here, ‘fixed factors’ refers to the macroeconomic conditions, socioeconomic makeup of the local area and other factors assumed to be the same across each location.

Neighbour performance refers to a measure of the performance of other retail brands within the retail destination. There are a number of studies having shown that the performance of neighbouring stores can have a significant impact on the performance of a given store. It is assumed that the performance with regards to revenue and footfall of each other

retail brand is equal to that of their retail sub sector as a whole.

Differences in the performance of neighbouring stores across each location is generated by different retail mixes assumed for each location. Each location has some share of its retail mix being reflective of that of the UK as a whole and a selection of large organised retailers. The sustainable retail destination also sees a number of stores representing explicitly sustainable brands, as well as a higher share of local and hospitality/entertainment focussed businesses.

As noted above, firms in each location appear to be performing similarly well prior to the retail brand choosing their location - were they not, the choice of which destination to locate oneself at would be a priori obvious. In those years after the location decision, the differences in performance are driven by differences in growth rates across each sub-sector. Growth rates in sub-sector footfall are assumed to be equal to both the national-level growth of the number of physical stores in each sub-sector and the real growth in physical sales in their sub-sector. This set of assumptions implicitly suggests that sales growth in physical retail is primarily generated by increases in customer numbers rather than the value of individual purchases.

The data sources for sub-sectoral growth rates can be found in table 1 below. In some cases, more than one source is used for a given variable, for example the growth rate for organised retailers uses data from the ONS and Oliver Wyman in different scenarios. Across different scenarios, both the sources and the shares of each sub-sector in each destination are varied.



Table 1: Sub sectoral growth rates (CAGR) sources

Sub sector	Source	Notes
UK physical retail (average mix)	ONS retail sales index, ONS online sales index	Calculated as real growth in the value of sales in physical retail destinations
Organised retail (lower bound)	ONS business counts	Calculated as the growth rates in the numbers of organised retail stores
Organised retail (upper bound)	Oliver Wyman	Calculated as real growth amongst organised retailers from 2009-2019
Local and independent retailers	ONS business counts	Calculated as the CAGR in local/independent store numbers. Upper and lower bound estimates are derived from the highest and lowest decade average CAGRs for the years between 2010 and 2022
Ethical suppliers	Ethical consumer	Real CAGR of the ethical consumption market in the UK from 1999 to 2019

The parameter β_2 is given the value of 0.46, taken from the paper Prof. Christoph Teller's paper 'Drivers of agglomeration effects in retailing: The shopping mall tenant's perspective', which investigates the impact of spillovers from overall retail destination performance on the performance of individual stores within those destinations. The paper shows that for every percentage point of performance improvement seen for a retail destination as a whole, a given retail unit sees a 0.46 percentage point improvement in its own performance.

It's well known that retail destinations which prize customer experience and pleasant surroundings have positive impacts upon footfall. We assume that the traditional retail location lies at the 50th percentile of the design quality distribution, while the sustainable retail destination lies at the 75th percentile. The range of impacts of design quality on retail brand footfall are drawn from Baker et al (2002) as the upper bound estimate and Han et al (2019) as the lower bound estimate. Using the models presented in these papers of shopping centre design on store performance, we calculate the impact of moving from the 50th to 75th percentile of the distributions of design quality presented in each paper. Note that these papers were drawn from a range of others, representing some of the highest and lowest effects found.

Finally, we look to consumer preferences over sustainability. As part of the representative polling undertaken for this report, a sample of 1,001 UK adults were asked whether they would prefer to shop at a

traditional retail destination or a sustainable destination. When offered the choice alone, 13% of adults suggested they'd prefer a sustainable destination, while when given the option of online shopping as well, that gap narrowed to a 6% lead for sustainable retail. In reality, such a preference wouldn't translate to a direct 6% boost of footfall to the sustainable retail destination's footfall. Even if having both options in easy reach, it is not guaranteed that consumers would be aware of a given location being 'sustainable,' and as such the degree to which the sustainable destination effectively markets itself is a highly significant factor. Further, a number of people may also act differently from their stated preference. To reflect this, we assume that as a lower bound estimate, just 5% of people know about the status of the sustainable destination and act according to their stated preferences, as an upper bound we assume this number to be 75%.

These assumptions, parameters and data sources allow us to determine the likely impacts on footfall of locating at a sustainable retail destination. They are transformed into revenue impacts using a customer conversion rate of 40%.

Costs

The costs relevant to our scenario are assumed to be made up of rent and operating costs. As noted in the main report, there is strong evidence to suggest that rents in sustainable buildings are higher than in others, while there is mixed evidence on the effect of sustainable buildings on operating costs.



In general, holding constant the tenants and usage of a given building, operating costs would be lower were it a sustainable building, though when e.g. selection effects or tenant responses to perceived energy efficiency are factored in, this bonus may dissipate. Those studies which have attempted to quantify the relative sizes of rent premiums and potential operational savings tend to show that under competitive conditions, the two will cancel each other out. So long as there are expectations of lower operating costs, higher rents can be charged up to the value of the expected savings. As such, we assume that the cost effects of entry into the sustainable location are zero.

Profits

With estimates of impacts on costs and revenues we can derive impacts on profits. We assume that upon opening, the retail brand's unit sees the same profit margins as the average UK retailer in 2019, 5.5% (Retail Economics 2021). 2019 was used as a base year to control for the impacts of the pandemic on profits.

Gross value added

Gross value added for a given firm can be expressed as the value of their revenues minus the value of any intermediate costs they incur. In the scenario above, where the cost impacts of locating at the sustainable

retail destination are nil, the likely changes in our retail brand's gross value added can be calculated from our revenue figures and base profit margin.

To simulate the wider GVA impacts of the destination, we assume that all firms locating at the sustainable retail destination experience similar revenue effects. Figures from the ONS's job density and GVA per employee datasets were then used to estimate the average GVA per square metre within retail, 2019 figures were used again for consistency with profit margin figures. This figure, along with the modelled increases in GVA were combined with data on the size of retail units within a selection of Landsec retail destinations to generate estimates of the GVA impacts of hosting a sustainable as opposed to traditional retail destination.

