A new life for the high street

BRIEFING PAPER

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Changing working and shopping patterns are set to drastically alter the nature of city and town centres as a result of COVID-19, with retail and office spaces become increasingly vacant. This paper argues that policymakers should act now and deploy radical new measures to stimulate new life in urban centres.

KEY POINTS

- Emerging evidence suggests that lockdown will change consumer and business behaviour on a long-lasting basis, with a permanent shift to homeworking and digital retail.

- This change will impact urban spaces, risking widening income and wealth inequality. Reduced commuting costs will benefit white collar professionals, while those working in retail face widespread job losses.

POLICY RECOMMENDATIONS

- **A nationwide program of repurposing city and town centres should be introduced.** This would see vacant retail space converted into residential property. Replacing commercial space with residential property could, under conservative assumptions, create 800,000 additional homes.

- **A write off of the £80bn in local government debt sitting on the Public Works Loan Board's loan book, to stimulate new investment in community assets in town and city centres.** This would essentially transfer local government debt into the hands of central government, which is better-placed to service the debt. A debt write-off would liberate local authorities to invest in urban renewal projects – including the creation of new schools, parks, and sports facilities.

- **Designating areas at risk of urban decline due to loss of retail and office space as Economic Growth Areas (EGAs).** EGAs would offer tax incentives for firms moving into these areas, with tax incentives contingent on the hiring of local workers – particularly those that have lost work as a result of economic change accelerated by the coronavirus crisis.

A permanent change in the world of work

Lockdown during the coronavirus crisis has drastically changed our lives – how we shop, work and spend our spare time.

As the lockdown is eased, will habits formed in recent weeks stay with us? And, if so, do we need to radically reimagine our approach to urban planning? On both questions, we think the answer is yes.

Many of us – the Social Market Foundation team included - have now been working from home non-stop for the past four months. This year has seen us migrate to the cloud and work collaboratively from a distance. Videoconferencing via Zoom and Microsoft Teams have become a daily feature of work. Like many organisations across the country, being forced apart has dragged us kicking and screaming into the 2020s.

And, notably, it has for the most part worked well. Deadlines have been met. Reports published. And radio and television interviews undertaken from the comfort of our homes. Employees have also saved money due to reduced commuting costs. On the downside, the lack of spontaneous discussion, in-person collaboration and the social side of office life have been missed.

For many firms, lockdown and enforced homeworking have provided a "proof of concept", highlighting that regular remote working is not only possible, but can work well and offer opportunities to save money in the long-term – for example by renting less office space.

This proof of concept is set to lead to long-lasting changes in the world of work. Twitter has announced that all its employees can now opt to continue working from home 'forever' after the coronavirus crisis eases.[1] Dentons, the world's largest law firm by headcount, is shutting two of its UK regional offices in Aberdeen and Watford, with all staff due to work from home permanently.[2]

Emerging evidence suggests that homeworking employees too have, for the most part, enjoyed the experience with many not wanting a return to "business as usual" as lockdown is eased. Among homeworking newcomers, seven in 10 (68%) have said they would like to carry on working this way when the crisis is over. Having greater flexibility with working hours, more time in the day due to no longer commuting and being around family more are cited as some of the most popular advantages to being away from the office.[3]

The crisis may, therefore, prove a catalyst for a radical restructuring of the nature of work in the UK. While the Government is currently urging workers and employers to return to their offices, there are signs that many lack the appetite to do so.

Winners and losers

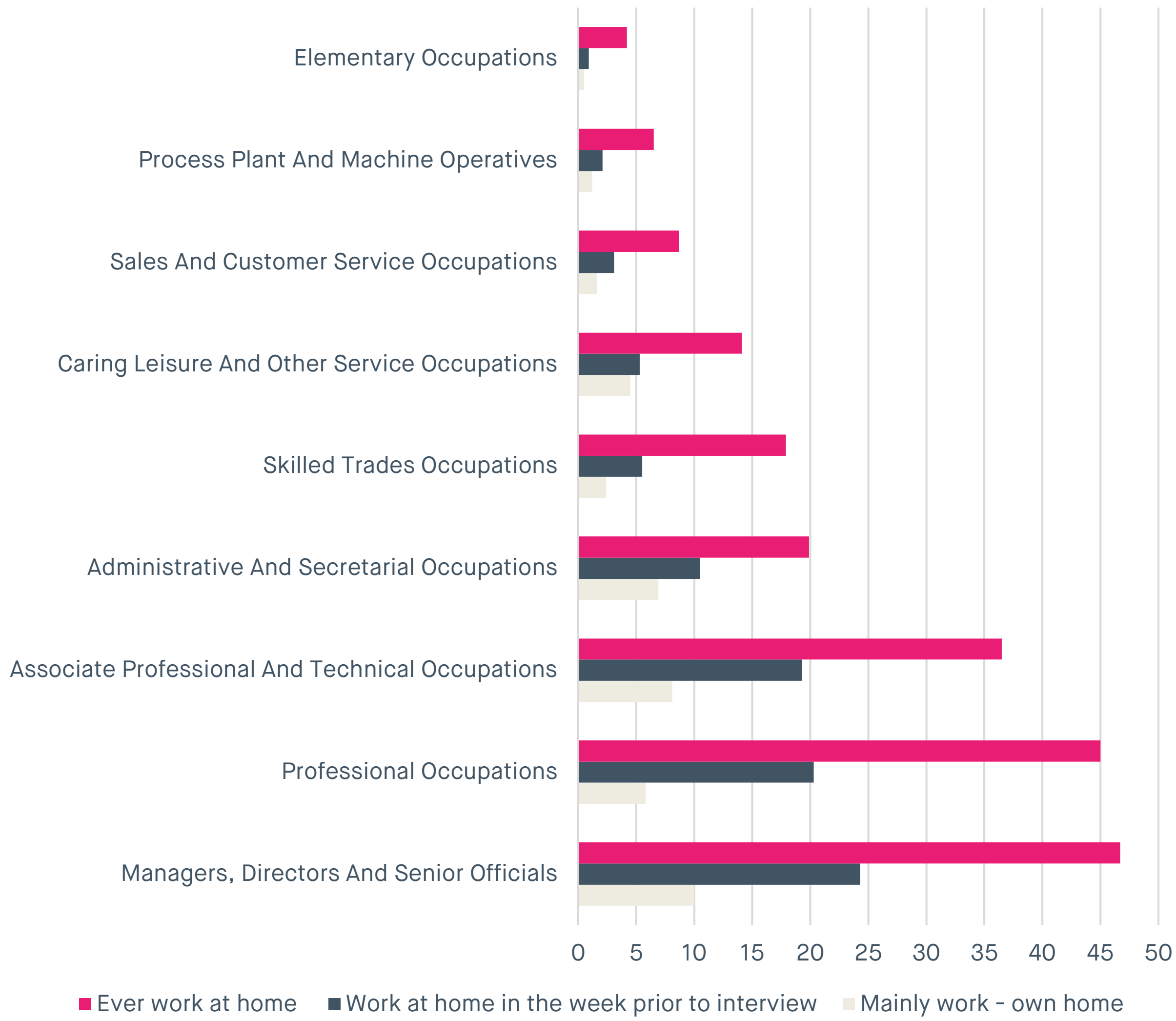
While there are likely to be financial and wellbeing benefits for those that can homework, there are risks for those unable to benefit from this change in working habits.

In particular, office work supports employment in a range of other activities – such as cafés and other shops for whom office workers are a key customer base. Without them, such businesses in towns and cities are likely to close or shed jobs. Sandwich chain Pret A Manger is to close 30 outlets and is expected to cut at least 1,000 jobs at other shops, partly in anticipation of lower footfall.[4] SSP, which runs cafés and shops at rail stations has announced plans to axe 5,000 jobs as commuters look unlikely to return en masse.[5]

From a distributional perspective, those that are unable to homework are disproportionately on lower incomes – raising the prospect that changing working patterns may widen income and wealth inequality. Reduced commuting costs will benefit white collar professionals, while those working in retail and hospitality face widespread job losses.

ONS data from 2019 show that close to half (47%) of managers, directors and senior officials at least occasionally worked from home, compared with just 4% of those in elementary occupations.

Figure 1: Percentage of UK workforce homeworking by occupation, January to December 2019



Source: Office for National Statistics – Annual Population Survey

Another consideration is those who can homework, but do not enjoy the experience and prefer office life. We noted earlier that 68% of new homeworkers would like to carry on homeworking after the crisis is over. That leaves about a third with less enthusiasm for not returning to the office. Social isolation is a potential challenge. For those with limited housing space – such as flat-sharers – homeworking can be a frustrating experience. If other housemates are working from home, finding a quiet space to work productively can be a challenge.

Very little is known at this stage about how homeworking could impact the careers of younger workers. Potentially, it could limit their ability to make professional contacts and benefit from informal mentoring from more senior colleagues – to the detriment of career progression.

Case study: Ctrip

Starting in 2010, Ctrip, a Chinese travel company with 16,000 employees experimented with homeworking to see if it would have an impact on company productivity. As part of a trial 250 call centre employees were examined. Half continued to work in the office while half worked from home for nine months.

The initial hypothesis of Ctrip was that homeworking would allow it to save on office costs, but also have a negative impact on employee productivity. Yet the results surprised: productivity in the homeworking group of employees rose by 13% during the experiment with no difference in the quality of calls.

Notably, at the end of the experiment, Ctrip expanded the work from home option to the entire firm. Two thirds of the control group in the experiment (those that stayed in the office) opted to remain in the office. Half of home workers opted to return to the office, citing "concerns over the loneliness of home working and the lower rates of promotion."

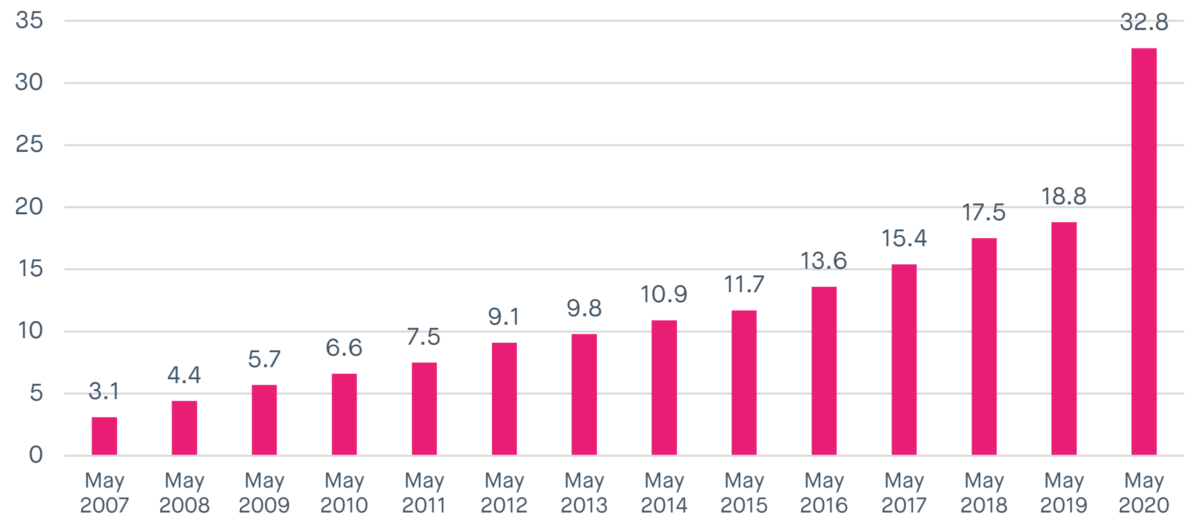
The performance gains by home workers nearly doubled after the experiment ended, reflecting the fact that those not enjoying the experience chose to return to the office – leaving a group of homeworkers for whom working remotely is a success. Ultimately, this suggests that the impacts of homeworking on productivity and employee wellbeing could vary substantially across the working population – assuming the case of Ctrip is representative of how companies in other sectors and countries might fare.

We note that the Ctrip experiment took place about a decade ago, and homeworking has moved on significantly since then, with improvements such as high-quality videoconferencing and more software tools for working collaboratively from a distance. Homeworking probably now works well for a greater proportion of the workforce, though there is still likely to be a sizeable proportion for whom it is detrimental. The optimal approach for businesses might be “hybrid” working models, offering much greater flexibility over whether to work from home or in an office. This might be the best way of maximising employee productivity.

The rise of online retail accelerates – and in turn the demise of the traditional high street

Beyond work, the way we shop has changed too. The latest retail sales statistics show that the internet now accounts for about a third of all sales across the country, up from less than 20% a year ago.

Figure 2: Internet retail sales as a % of total sales



Source: Office for National Statistics

While some consumers will head back to stores now lockdown is easing, for others the shift to buying more online is likely to be a permanent one. A report by Alvarez & Marsal and Retail Economics estimates that 17.2 million British consumers (25% of the population) plan to make permanent changes to the way they shop.[6] This might underestimate the extent to which shopping habits will change, if store closures over the coming months essentially *force* more consumers to buy increasing amounts online.

What does this mean for urban spaces?

A permanent change in our shopping and working habits raises profound questions about the nature of our urban spaces – and the future of towns and cities.

If COVID-19 accelerates the shift towards online retail and service access, shop vacancy rates on the high street and in retail parks could rise rapidly as stores become financially unviable. Already we have seen a number of big brands announce significant plans to close stores and shed jobs. For example:

- John Lewis has announced plans to shut eight stores and shed 1,300 jobs.[7]
- H&M plans to close 170 stores across the globe.[8]
- Halfords has earmarked 60 sites for closure.[9]
- Boots has announced plans to cut 4,000 jobs and close stores.[10]
- UK shopping centre owner Intu has filed for administration.[11]

Office space could also become increasingly vacant as firms embrace a policy of at least partial-homeworking – limiting the amount of floorspace required by firms. Long leases on commercial property might fall out of favour, with flexible spaces such as coworking and serviced offices growing in popularity.

The rise of homeworking and shift to digital retail has knock-on impacts on other businesses. Without office workers, tourists and shoppers returning to cities, thousands of jobs in cafes, pubs, bars, cultural attractions and restaurants are at risk. Workers in these jobs are typically lower-skilled in terms of formal qualifications and are likely to find it harder to get a new job in the event of unemployment.

There is a real risk that COVID-19 derails the process of urban regeneration which has seen many of the UK's cities improve markedly in recent decades. Struggling town centres, many of which were hard hit by the financial crisis, could fall further into a state of urban decay. Even before the coronavirus crisis, traditional retail was struggling across much of the country; it was estimated in 2019 that about 16% of all shops and retail outlets in the UK were empty.[12]

Going forward, do we risk a future of ghost town and city centres, or high streets mainly occupied by a dispiriting combination of betting, pound and charity shops? In an age of remote working and online retail, what is the purpose of our urban centres?

A suburban renaissance?

Interest in living near to city centres may diminish significantly over the coming years as more households seek larger homes at prices/rents they can afford. If fears over coronavirus persist, more will want to live in less densely populated areas. Proximity to the workplace might become less of a priority as a large portion of the workforce expects to work from home at least part of the time. A long commute may be tolerable if it only occurs once or twice per week, with other days spent working at home.

Estate agents suggest that such preferences, at least in the short-term, are being reflected in the property market. In April 2019, 28% of people signing up for property viewings in Aylesbury Vale (Buckinghamshire) were from London. Since COVID-19, that proportion has increased to 44%.[13] Data from Zoopla suggest property demand is currently greatest in areas outside of, but close to, major cities.[14]

Suburbs – the butt of many jokes in intellectual and artistic circles – may be back in style, given their balance of reasonable commutes to work, relatively affordable housing and reduced population density compared with cities and town centres. Those working from home on a permanent basis might choose to move even further afield – to rural areas and towns traditionally seen as too far to commute to work from.

Conceivably this might help government in its ambitions to "level up" left behind parts of the country. A rise in homeworking could breathe new life into towns, rural areas and suburbs, particularly as the coronavirus crisis draws to a close. If individuals spend more time living and working locally, rather than commuting to jobs elsewhere, local cafés and restaurants might thrive, as homeworkers visit local establishments. Coworking spaces might become increasingly prevalent in towns, giving workers an opportunity to enjoy the social side of being in an office – when they want to.

But there are huge uncertainties around such benefits – and particularly the extent to which they will accrue to those that are not homeworking professionals. The extent to which homeworkers will frequent local shops, coworking spaces and eateries is highly uncertain. Those on lower and middle incomes might find themselves stuck in areas of urban decline as city and town centres "level down".

Bowling alone. Challenges for social capital and community

Beyond pure economics, one challenge created by a rise in homeworking, and potential suburbanisation is the erosion of community – or what economists and sociologists often call social capital. If urban centres cease to be meeting hubs and "soft" connections with others (such as the barista making your morning cappuccino) diminish, isolation and loneliness might be growing issues.

Despite potential benefits of homeworking, many would agree that it can at times be an isolating experience. And for those facing persistent unemployment as jobs in sectors such as retail disappear, joblessness can be deeply isolating as well as financially challenging.

The extent to which technologies such as social media and video calls can make up for a lack of in-person relationships is subject to debate. The political scientist Robert Putnam, famous for his book *Bowling Alone* which charted the decline of social capital in the US, has argued that technology might increasingly drive a wedge between our individual interests and our collective interests.[15] Others have questioned Putnam's view that social capital has declined, arguing that the nature of it might have merely shifted – for example onto social media.[16] Technology and the connectivity it enables might have increased social capital – at least for some segments of the population.

Depending on the extent to which one is a technology optimist or pessimist, there is arguably likely to be a growing role for government in supporting some form of community, particularly as traditional sources of in-person relationships such as the office and shops diminish in importance. Loneliness has gained prominence as an issue in recent years – the then Prime Minister Theresa May launched the first Government loneliness strategy in 2018.[17] Increased societal fragmentation brought on by coronavirus, lockdown and economic change mean loneliness is likely to become a growing public policy issue.

The impact of a rise in homeworking on social capital and loneliness could differ greatly across demographic groups. Those living with a partner, children or wider family might benefit from being able to spend more time with loved ones as commuting becomes less of a feature of daily life. For those living alone, homeworking could be a very lonely experience, given the loss of social interaction that typically takes place while commuting, in the office and at social events after work. Offices are often places where personal and professional relationships formed. Without them, social circles could shrink significantly.

Where next for policymakers? Saving our city and town centres – and the people that work in them

If emerging survey findings are anything to go by, the coronavirus crisis is set to accelerate existing changes in urban spaces – and possibly rapidly. Homeworking and hotdesking, regular features of many workplaces, will become even more prevalent. Firms that had previously shied away from new ways of working have been forced to do so in this crisis, and for many this will lead to permanent changes in behaviour.

2020 is seeing an acceleration of the demise of traditional high street retail, as consumers increasingly embrace the convenience of having goods shipped directly to the home. New spending habits, brought on by lockdown, are likely to persist even as fears of coronavirus diminish.

There are benefits to these trends, for those that are able to homework and embrace new ways of doing things. But many also stand to lose from rapid economic and social change as jobs on the high street disappear. The retail industry is currently the UK's largest private sector employer with almost three million workers. With jobs in online store warehouses unlikely to directly replace those lost on the high street, unemployment could rise significantly from job losses in this sector alone.

An erosion of social capital and urban decline are potentially huge challenges as city and town centres become less relevant as social, commercial and employment hubs.

Policymakers can, in our view, save our town and city centres. But this will require a rethink of how such spaces are used, rather than trying to "protect your high street", as the Conservative Party pledged in their 2019 General Election manifesto. The Labour Party's 2019 manifesto also said that "we will revive high streets by stopping bank branch closures, banning ATM charges and giving local government new powers to put empty shops to good use".

Yet fundamental changes in consumer preferences towards online shopping, and businesses towards increased homeworking, need to be accepted rather than pushed back. "Protection" and "revival" of the high street in its traditional form are not sustainable options in the face of significant technological change.

Policy recommendations

Where should policymakers go from here? Below we provide three thoughts.

1. Replacing retail and office space with housing – residential centres

As discussed, reduced demand for office space, and a seemingly inevitable decline of traditional retail, risk creating ghost town and city centres with high store vacancy rates. While there is a temptation for government to talk about "saving the high street", it must be acknowledged there is little that can be done to reverse changing consumer behaviour in favour of the internet. The online cat is out of the bag – the convenience and often lower prices offered by internet retail mean traditional stores will struggle to compete.

While there is likely to be a place in the future for boutique stores – shops that offer an "experience" as well as a place to buy goods and services – we are almost certainly looking at a world where there is less demand for retail space in our urban centres. Likewise with office space.

Rather than letting high streets fall into urban decay, we can revive our urban spaces through repurposing them – replacing shops and offices with desirable and affordable homes. Creating more spaces for people to live in city and town centres might be a way of saving them in an age where flight to the suburbs is a potential trend.

Government has already announced that changes to the law will come into effect in September, which will make it easier to change commercial buildings to residential use without the need for a planning application. Builders will also no longer need a normal planning application to demolish and rebuild vacant and redundant commercial buildings if they are rebuilt as homes.[18] These reforms could help pave the way for a restructuring of town and city centres.

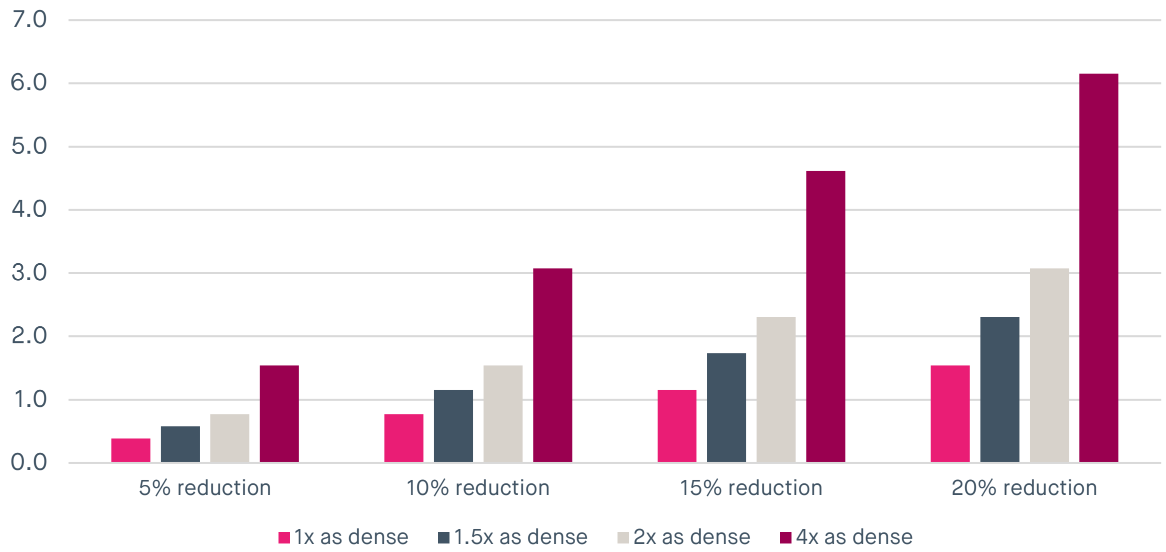
As well as creating jobs in construction and renovation, such a plan would also save the pubs, bars cafes, restaurants and cultural venues that will otherwise struggle to stay afloat in an era of reduced footfall on the high street. The rise of more residential town and city centres could support a bustling café culture and enhance social capital.

We estimate that the amount of homes that could be built through repurposing commercial space could be substantial – helping to ease the housing affordability crisis that dogs a significant portion of UK.

On the conservative assumption of 5% of commercial land being converted, and residential developments on this land being twice as dense as the England average (a reasonable assumption for town and city centres) – about 800,000 homes could be developed according to our calculations.

There is a role for government to take the initiative in such plans to repurpose urban centres, with a significant role for local authority housebuilding to provide affordable homes for those on lower incomes.

Figure 3: Number of homes in England that could be built through repurposing commercial/industrial land, millions. Estimates for different reductions in commercial land space, and different levels of development density compared with the average across England.



Source: SMF analysis of England land use statistics

2. Writing off local government debt to facilitate investment in community infrastructure

Homes alone do not make a community. Social assets such as community infrastructure thus need to form a key part of plans for urban renewal. New school facilities, community centres, parks, libraries, gyms and sports grounds could all refresh the social life of our towns and cities, providing valuable opportunities to build social capital.

A challenge to actualising this, and indeed a programme of social housebuilding, remains funding. Local authorities are set to come under significant financial pressure in both the short and medium term. Economic recession is likely to increase demand for local authority services. At the same time the short-term effects of the downturn, and long-term decline of the high street, risk undermining revenues from business rates, parking and other sources.

The 2020 Finance Bill introduced the power of central government to increase the statutory lending limit on the issuance of local loans through the Public Works Loan Board (PWLB). The PWLB is the most frequently used way that local government borrows for capital expenditure. Currently the limit of PWLB borrowing is £95 billion, but new £115 billion and £135 billion limits can now come into force following the introduction of secondary legislation.[19] Given the scale of the challenges faced by local communities amid the coronavirus crisis and accelerating economic change, there are arguably compelling reasons for an immediate increase in the borrowing limit – giving local government additional firepower to invest in community infrastructure and arrest urban decline.

But increasing the PWLB limit alone might be insufficient – local authorities are unlikely to be willing or able to borrow if revenues needed to repay loans, such as those from business rates, are being eroded by economic downturn. Ultimately, an increase in grant funding from central government, based on local need, may be essential. Councils lost almost 60% of their central government funding between 2010 and 2020 and last year it was reported that more than half of English councils were eating into their reserves, with nearly half planning to cut services despite raising Council Tax.[20] The precarious financial situation of local government leaves them with limited power to support local economies through the current crisis.

Arguably, rather than increasing the amount that local government can borrow, central government should go the other way and write-off local government debt. Ultimately, this entails a transfer of local government debt into central government debt. While this might sound radical, there are compelling reasons for exploring this option – in particular, the reduced debt-servicing costs faced by central government and the ability of central government to service debt through a broader range of tax revenues.

Writing off at least some of the PWLB's loan book of circa £80bn might encourage local authorities to invest in new projects in the current economic downturn – supporting jobs in the process.[21] Any debt write-offs could be made contingent on local government committing to specific investments in local communities, or new measures to help the unemployed (such as investment in adult education provision).

This would be a one-off, extraordinary measure for extraordinary times. Further ahead, if we want to empower local government to save our towns, cities and high streets from structural decline, long-term, sustainable sources of funding are required – whether that be the flexibility to raise more taxes locally, or increased funding from central government. A new settlement for local government is badly needed.

3. Jobs, and support, for the displaced

Structural, persistent unemployment – and widening inequality – seems an increasingly likely outcome as the dust settles from the coronavirus crisis. Jobs that have been, and are set to be, lost in sectors such as retail may never return.

There is likely to be a substantial mismatch between the skills of the newly jobless and the skills required in areas where there are job vacancies. On the jobs website, Adzuna, for example, the top three occupations for job vacancies at the time of writing are IT, teaching and healthcare – all areas where those working in retail might struggle to find work without reskilling.

In part, preventing permanent unemployment will require government to take adult education more seriously – providing more opportunities for individuals to retrain for new roles. This is something the SMF is looking to explore in future research.

There is also a role to be played by government as an employer. Prolonged economic weakness – a so-called U-shaped or L-shaped recovery – might limit the availability of even higher skilled jobs over the coming years. The SMF has recently argued for government to act as an "employer of last resort" and provide a Universal Jobs Guarantee scheme for those left out of work by the coronavirus crisis.[22] Ultimately, after years of decline in the public sector share of the workforce, the importance of government employment looks set to rise again.

Another policy that could be adopted, discussed in an SMF paper last year, is the establishment of Economic Growth Areas (EGAs).[23] These are areas where low pay and lack of job opportunities are pervasive. Employers would be encouraged to relocate or start their businesses in EGAs, through tax incentives.

It would be possible to require firms to train and hire local workers to benefit from such tax incentives, and there is some evidence from France that local labour requirements can be effective. *Zones Franches Urbaines (ZFUs)* were created by the French Government in 1996 and designed to reduce urban inequality in French neighbourhoods. In an attempt to boost local employment in these deprived areas, ZFUs carry an additional requirement that businesses must employ one third of their employees from within the zone in order to reap the tax benefits of the policy.[24]

In the context of urban decline due to a loss of retail and hospitality employment, tax incentives could be used to encourage new kinds of firms to relocate to city and town centres, and to hire individuals that have lost work due to economic change.

Having said that, evidence on the employment effects of such “enterprise zones” are uncertain. While they can reduce unemployment, the costs of such tax incentives has been questioned, leaving their efficacy open to interpretation.[25] As such, the merits of this approach should be weighed up against other measures, such as government investment in community infrastructure (and associated employment opportunities that arise from this).

ENDNOTES

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