

Retail Week



SHOPPING CENTRES

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Pipe dreams

Opening our shopping centres special, Ben Cooper asks just how bad the pipeline for the sector is looking and how retailers on the expansion trail will cope in the next few years

Even up until last summer, shopping centre development was strong. A wave of centres had opened during the year and yet more were due to launch before Christmas.

But the months of economic meltdown that followed put a stop to all that, and the ladder the industry had been standing on was swiftly kicked away.

In the long term, gaps in the pipeline mean less high-quality space for retailers and significantly reduced expansion opportunities, so the sooner they are resolved the better. So what exactly has changed in the shopping centre outlook and what can retailers do to respond?

John Lewis head of retail development and BCSC president Jeremy Collins says: "The property sector has got some big challenges on its hands. We can either sit still and wait to see what happens or we can get involved and think about how we might deliver shops; otherwise we're in for a long wait."

Despite the resuscitation of the banking system after last autumn's catastrophe, lending ground to a halt, cutting off developers' lifeblood – credit. Almost overnight, projects that had progressed for months or years on schedule became no longer viable and there was no other funding to be found.

The second big blow for developers came a short time later as most retailers, facing their own problems from weakening consumer confidence, drastically cut down their expansion plans and demand dropped off.

In March of this year, the extent of the problem became painfully apparent when Modus's Trinity Walk scheme in Wakefield was put on ice after construction had already started – the first time a project had stalled so late into the process. Now, five months later, the steel frame still stands untouched on an empty construction site, a stark reminder of the rapidity of the wider decline.

But this problem is by no means confined to Wakefield. Projects in Bradford, Oxford, Leeds, Sheffield, Portsmouth and Chester are now on the late list to name half a dozen, and many more have gone the same way in the past year.

BCSC executive director Ed Cooke says: "It's quite clear that the develop-



Westfield's Bradford project has been delayed by two years

ment pipeline has gone into serious difficulties. A lot of the developments that aren't out of the ground are on the back-burner, and I don't think anybody is under any illusions that next year isn't going to be just as hard."

So what does this mean for retailers? In short, there will be several million square foot less of shopping space coming onto the market in the next few years. DTZ head of retail development Adrian Powell says: "The supply of new floor space that's going to be coming onto the market now is going to be significantly reduced. Most schemes will be delayed for two to three years."

The numbers don't lie

Leading property agency Cushman & Wakefield regularly monitors the health of the pipeline and makes forecasts based on the present shape of things.

After the bumper crop last year of just over 9 million sq ft of new shopping centre space, following almost half that (4.64 million sq ft) in 2007, Cushman & Wakefield expects that the figure for 2010 will be just 3 million sq ft, dropping to 2.65 million sq ft in 2011.

The first consequence of this is obvious – the options for opening shops in new schemes will be very limited. Retailers might not have been expanding much over the past six months, nor is there likely to be much more activity in the rest of 2009, but in the next three years it will be vital to do so in the interest of long-term profits.

But perhaps more importantly, retailers need to be even more judicious in the types of sites they choose. New shopping centre space is designed and built with retailers' evolving demands in mind, so a slowdown in physical growth also means a slowdown in the evolution of shopping.

Many retailers have specifically stated that they want to open new stores in shopping centres. They say they trade best in developments that have the most suitably sized units for their requirements, appropriate tenant mixes and modern architecture. Anything else is a compromise they would rather not have to make.

"Good developments provide retailers with the perfect environment, size and adjacencies," says Powell. "The fact is, if you're a retailer wanting to expand in the best of locations, developers aren't going to be bringing in space for you for a number of years yet. There's going to be a scarcity of new prime space and you're stuck with what's there."

However, not all retailers view the slowdown in the pipeline as a bad thing. One retailer with big plans for the UK is Spanish fashion brand Desigual, and while its chief executive Manel Adell admits it now has fewer options, there are positives to be taken from the straitened development climate.

"A bit of slowdown in the pipeline isn't necessarily bad," he explains. "It could clear up the most doubtful projects. Some of the pipeline projects

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Jeremy Collins,
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SCHEMES SET BACK

Some of the major schemes to have been hit by problems:

- 1 Trinity Walk, Wakefield**
Modus 520,000 sq ft
- 2 Westfield Bradford**
Westfield 581,200 sq ft
- 3 Westgate, Oxford**
Liberty International 510,000 sq ft (extension)
- 4 Northern Quarter, Portsmouth**
Centros 1 million sq ft
- 5 Sevenstone, Sheffield**
Hammerson 860,000 sq ft
- 6 Northgate, Chester**
ING Real Estate 500,000 sq ft
- 7 Eastgate Quarter, Leeds**
Hammerson 1.5 million sq ft

Total affected space
5.5 million sq ft

SCHEMES ON TRACK

The schemes that remain on course to open this year:

- 1 St David's, Cardiff**
Capital Shopping Centres & Land Securities 967,000 sq ft (extension)
Opening: autumn
- 2 St Enoch, Glasgow**
Ivanhoe Cambridge 250,000 sq ft (extension)
Opening: October
- 3 Union Square, Aberdeen**
Hammerson 700,000 sq ft
Opening: October

were a bit overstretched and they're the first ones to be delayed. They were too big or there was already too much competition in those areas and there could have been cannibalisation."

Nevertheless, the negatives vastly outweigh the positives. With the problem so big, Cooke argues that the industry can't solve it divided. He says: "It's in the hands of the industry and the Government. A collaborative approach is needed. Government can't do it on its own and neither can the industry."

King Sturge head of retail group Charles Miller believes that this is an issue the industry cannot ignore. "We need to get a grasp of how serious this is," he says. "It's a fundamental

problem for the health of retail."

Miller, who was involved in writing a report for the BCSC in May providing practical solutions to the problem, says there are measures the Government could take, such as local authorities taking a greater stake in developments, and financial assistance in the form of tax increment financing

to ease the tension for developers.

However the issue is tackled, retailers and developers are in for a long wait until things genuinely pick up.

The loss of millions of square feet of new shopping centre space has already added significantly to retailers' woes and without action from all sides, the industry will continue to suffer.



Making service charges live up to their name

If centre landlords are to consider cutting service charges for struggling retailers the remaining funds need to be used more wisely to drive footfall, says John Ryan

Wander around almost any UK shopping centre at the moment and the chances are high that you will find voids. The number will depend on the scheme you visit, but their presence is guaranteed.

Over the past year, the reaction of many retailers to circumstances that have been almost entirely beyond their control has been to draw in their horns, stop spending and, in a number of high-profile instances, cease trading.

Given this backdrop, within the shopping centre arena, many retailers have pointed the finger of blame at landlords and owners for unrealistic expectations about the level of rents and service charges that can be exacted.

The question is, does a cut in the cost of services or monthly rents make much difference if shoppers aren't shopping? Hammerson managing director of UK

retail David Atkins says: "A short-term cut in service charges may flatter this year's figures, but if customers aren't walking through the doors, then there's a longer-term problem."

This might sound as if Atkins is ruling out reductions, temporary or otherwise, but this is not the case. Hammerson operates a variety of large shopping centres in the UK, with the Bullring in Birmingham, The Oracle in Reading and Brent Cross in north London among its higher-profile schemes – a portfolio that equates to a vast number of retail tenants. Within these, discussions are certainly taking place. But as Atkins notes: "Service charges are something that everybody is talking about, but one of the consequences of higher vacancy rates is a higher rate of non-recoverable service charge."

It's a point not lost on Savills head of

"IN A RECESSION, MARKETING TENDS TO BE THE FIRST THING THAT GETS CUT. OUR VIEW IS TO TRY TO MAKE OUR MARKETING MORE TARGETED"

David Atkins, Hammerson

shopping centre management team Tim Leatham. "With some tenants, rental concessions are being given to those that are genuinely needy. But we need to look at evidence that this really is the case and that they're not bluffing. Some really are bluffing," he says.

This smacks of a degree of suspicion about the motivation of tenants asking for cost cuts and there is certainly a history of retailers, centre owners and landlords playing their cards close to their chest when it comes to discussing such matters. That said, many landlords today have much greater access to the trading status of their retail tenants than in the past, meaning that a reasonable assessment can be made about the success, or otherwise, of businesses within their centres.

Andrew Parkinson, centre manager at Bluewater, the UK's second largest mall ►



and part of the Lend Lease empire, says: "90 per cent of retailers report sales information to Lend Lease and that allows us to look at categories of particular retailers that are working and those that aren't.

"We do look at rents, but we will always do this on a case by case basis. The landlord has got to see it as an investment in that business. So maybe as part of an agreement there might be an arrangement for a store to be refreshed."

And it is understandings of this kind that provide a clue about the present direction favoured by landlords in their efforts to improve the trading environment for their tenants. Service charges, of course, incorporate a large element of marketing spend for the benefit of retail tenants. "At the consumer level, we've looked long and hard at the way in which we run centres and schemes and asked ourselves some difficult questions," says Atkins. "In a recession, marketing budgets tend to be the first thing that gets cut back. Our view is to try and make our marketing more targeted."

Practically, this means that Hammerston and most of the other big shopping centre owners want to get more bang for their buck when staging marketing events – not unlike their tenants.

Plan of action

What, therefore, is being done to achieve more with ever-shrinking marketing budgets? Ronan Faherty, commercial director of Land Securities, whose shopping centre portfolio includes Princesshay in Exeter, Cabot Circus in Bristol and St David's in Cardiff, says: "It's all about how to best use the cash that's available. Some retailers have an immediate need for help to sustain them and we work with Experian on a battleground analysis to do this."

Battleground analysis is a detailed demographic analysis of each area in

which Land Securities operates, leading to a hit list of actions that will yield the best results for individual (and troubled) retailers. Faherty declines to name retailers that have benefited from help in Cabot Circus as he says this might prejudice people's opinion about their relative strength. However, the generation of a marketing effectiveness list is a trait that Land Securities shares in common with other large landlords.

The range of activities found on such lists is very broad, but all landlords and owners share a desire to involve tenants as part of the marketing process.

Just a small sample suffices to illustrate the kind of novel temporary initiatives that are being put in place. At Southside, the Savills-managed shopping centre in Wandsworth, south London, a "summer pamper event" took place last month that involved support from retailers including Boots and Body Shop.

Similarly, Atkins highlights a food festival at The Oracle that ran from June 3 to 6. The event included a farmers' market with music and a number of stands in the mall from which retailers could sell their wares. "On the data that we have got to date, footfall was up 15 per cent on the Saturday and 22 per cent on the Friday," he says. Cosmetics retailer Lush used the event to stage a picnic theme in the main mall and experienced double-digit growth, according to Atkins.

Farmers' markets, in certain locations, have been part of the centre event landscape for some years. At Mahon Point, the regional mall just outside Cork in the Republic of Ireland, the farmers' market located in the car park is now in its fifth year and is regarded as a central element of the scheme's marketing effort.

And mention should perhaps be

Bluewater took advantage of a local 10k run this year by getting retailers involved in the event

made of the recent 10k run at Bluewater. This was an event for locals, but the centre management got the buy-in and involvement of retailers at the mall – making good use of the opportunity.

Does the recession and drop-off in the level of service charges mentioned by Atkins therefore mean that a sword hangs over centre marketing and are the days of feel-good events likely to be superseded by more targeted offerings?

According to Parkinson, Atkins, Faherty or Leatham the answer would seem to be a resounding yes. Leatham talks about the "balance" that needs to be struck between the cost of centre marketing and costs that may need to be reflected in the level of service charge levied. For Atkins, it's a straightforward assessment of the relationship between marketing investment and return. "Events programmes have continued, but what we are doing is focusing more closely on spend and return on that spend," he says.

Now, more than ever, it would appear that success in attracting customers to a shopping centre is dependent on a good working relationship between landlord and tenant, as well as a will to get things off the ground.

Lend Lease Europe head of asset management Mark Boor says: "Over the past year this close relationship with our tenants has become even more important. We have continued to seek direct contact with our retailers and store managers, allowing each of our centres to develop marketing ideas and campaigns that work for them."

Boor lists a series of initiatives, among them fashion shows involving retailers, retailer contributions to monthly e-newsletters and using the windows of vacant units as additional display space for existing tenants.

And, of course, there is the online aspect to all of this. Every shopping centre in the country has an online presence from which shoppers can get details of forthcoming events, promotions and suchlike. The trouble for centre management is that getting people to visit them is little easier than attracting customers into their real-world equivalent.

From a marketing perspective it seems there is much that can and is being done. How effective this proves remains, as ever, a matter of the willingness of retail tenants to get involved and not just leave it up to the landlord.

What is clear is making more of what's on offer from a landlord should be an integral part of the local marketing strategy for any retailer operating in a shopping centre.

"IT'S ALL ABOUT HOW TO BEST USE THE CASH THAT'S AVAILABLE"

Ronan Faherty,
Land Securities



Sustainability at what cost?

New carbon reduction legislation is about to put the green agenda back in the spotlight. But will the costs outweigh the benefits, asks Liz Morrell

As little as a year ago the green issue was top of boardroom agendas for retailers and developers alike. But for some, as the economic downturn has taken hold, sustainability has slipped down the priority list. However, the business efficiencies it can drive can be vital in today's cost-cutting world.

The introduction of two pieces of legislation – the Carbon Reduction Commitment (CRC) and Energy Performance Certificates (EPCs) – will help focus the matter.

The latter were launched in April to measure the energy efficiency of buildings. David Symons, director of sustainability consultancy WSP Environment & Energy, says: "The concept behind EPCs is fantastic because they are a way of providing good information on energy performance when a retailer is looking to lease or buy a building." But, adds Symons: "The guidance on producing an EPC is relatively weak, which has allowed the quality of them to fall."

Land Securities environmental director Dave Farebrother says he has witnessed different EPC consultants awarding different energy efficiency gradings to near-identical neighbouring units in his centres. Many would like Display Energy Certificates, which measure the actual usage of a building, to be introduced instead.

CRC – a cap and trade scheme that will force the biggest users of energy to pay for their carbon emissions – will be introduced from next April. But most retailers and landlords already says they are focused on saving energy and emissions, and worry the scheme will divert vital cash and attention away from where it is really needed.

Farebrother says Land Securities has cut its level of CO₂ emissions by 28 per cent over the past four years. "I'm not sure we need CRC to achieve anything extra. We are being encouraged to do something we have already been doing and will have to pay more for it."

He adds that the administration costs of CRC alone will be a six figure sum for Land Securities. All major centre landlords will be affected, while any retailer with more than 120 stores is also likely to be liable. Symons estimates the cost will be a minimum of £76,000. A typical high street retailer will pay £500,000, while the UK's retail giants will be out of pocket to the tune of about £1m. "You will get the money back with the recycling payments, but finding the cash is going to be the key issue," says Symons.

There is also the question of who will bear the initial cost, because unless a retailer's lease allows it, landlords will not automatically be able to bill the tenant. Farebrother says: "For a lot of our centres the only energy we buy is for the common areas, but for some of our centres we are buying energy and charging retailers through their service charge."

Even if leases do allow the recovery of such costs, landlords will face the dilemma of whether they really can afford to charge their tenants. David Leedham, partner in real estate at law firm Speechly Bircham, says: "Do you want to pass on the extra cost when trying to get tenants in is already hard, rent reviews will be affected and you will get tenant kickback?"

Organisations including the British Property Federation (BPF), British Retail Consortium and BCSC have collaborated on the *Carbon Reduction*



"TRANSFERRING THE POTENTIAL COST BETWEEN LANDLORD AND OCCUPIER IS GOING TO BE QUITE A CONTENTIOUS ISSUE"

Jeremy Collins,
John Lewis and BCSC

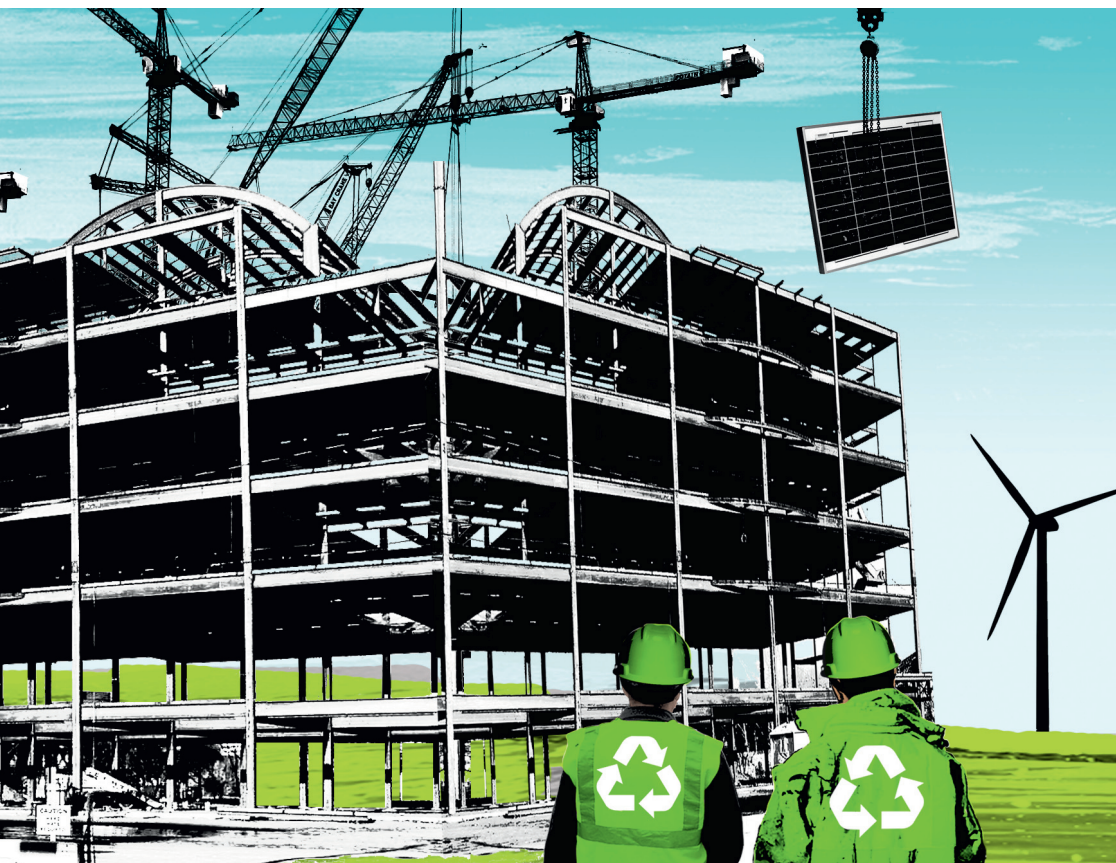
Commitment – a Guide for Landlords and Tenants, which suggests how the costs and benefits of the scheme could be split. However, it is only a guide.

Jeremy Collins, John Lewis head of retail development and president of the BCSC, says: "The problem that is likely to emerge is there isn't going to be a legal framework in which this new financial mechanism can be legally distributed between landlord and tenants. It will require landlords and occupiers to co-operate with each other. When it comes to transferring the potential cost, that is going to be quite a contentious issue."

Developers and landlords admit they might simply be forced to absorb the cost but, again, the complexities of CRC mean even this is not as easy as it sounds. CRC will include a league table that will rank retailers and shopping centres as to how they have fared in terms of reducing energy use. However, many are against the idea. Farebrother says: "A tradable permit system simply says: 'Is it cheaper for me to reduce my carbon or pay you to reduce yours?' A league table has no place."

But, says Leedham: "A lot of businesses are based on reputation, so for them a league table is important."

With the CRC consultation period only just ended, some retailers are still adopting a wait and see approach, but it is a dangerous game. At John Lewis,



THE CARBON REDUCTION COMMITMENT EXPLAINED

The Carbon Reduction Commitment (CRC) will be introduced next April. Around 5,000 businesses including large landlords and retailers will have to forecast emissions and buy allowances for these through a cap and trade scheme. After a three-year introductory phase, allowances will be auctioned – meaning their price could rise.

Although payments will be recycled, meaning the scheme will be revenue neutral, the UK's largest retailers could have to find up to £1m to meet obligations and face penalties if they perform poorly in an associated league table.

CRC – A Guide for Landlords and Tenants can be downloaded at bpf.org.uk

and it also has a lights-off pledge.

Land Securities last year rolled out a best practice retail operations sustainability guide to its centre managers and will shortly launch a carbon fit-out guide for smaller retailers as well as free energy advice for its independent tenants. Hammerson is doing the same and offered the use of consultants on sustainability for recent developments such as Bristol's Cabot Circus. Edwards says: "There are tenants like Boots and M&S that are charging ahead with this and are very proactive but there are other retailers that aren't moving quite so fast."

Joel Quintal, sustainability and environment manager at Prupim, says his company has been addressing the challenges of sustainability for some time. "We are implementing waste strategies to reduce the volumes of construction waste during development projects and have also begun rolling out automatic metering which will allow us to better monitor energy consumption."

The new legislation is forcing change all round as retailers demand more sustainable buildings and developers attempt to deliver them. But CRC highlights bigger issues in terms of economics and sustainability. In an era of volatile energy prices, leanness and greenness go hand in hand as store and centre designers want ever more environmentally sustainable developments.

As Quintal says: "Ultimately, retailers and real estate investment managers are in the same boat: public and regulatory scrutiny of what they do on a range of sustainability issues will simply not go away, and they need to address these issues for ethical, financial and reputation reasons." Being green is creeping up the boardroom agenda once more.

Collins says there has been an internal team focused on CRC for the past couple of years. "It will have an impact on our business in terms of cash flow and we are working on how we manage that while also ensuring it doesn't distract us from a whole raft of energy saving measures that include how we procure energy, to other measures such as the design and materials we use."

However, smaller retailers are likely to struggle. BPF senior policy director Patrick Brown says: "There is a lack of awareness that this is coming."

Of course, the biggest impact is that both retailers and landlords will be more accountable for their energy usage, which will prompt both parties to place more demands on each other. British Land sustainable development execu-

tive Sarah Cary says: "For the larger retailers like M&S and Next, CRC could be quite painful so we are going to see stronger demand for buildings that are more energy efficient." Equally, the landlords will want their tenants to be as energy efficient as possible because of the scale of landlords' liability. "Of our CRC carbon exposure around a quarter is controlled by us – the other three quarters is tenant consumption that we have no control over," Cary explains.

Shopping centre design and day-to-day operations are changing as all parties strive to reduce their energy usage. Many changes are simple but effective measures, such as turning down heating levels and naturally lighting and ventilating areas where possible. Hammerson head of sustainability Paul Edwards says: "We spent £1.4m on sustainable investments last year and they will pay back in 12 months to two years. For example, changing the tubes in our lights in our car parks reduced those carbon emissions by 35 per cent."

Landlords and developers are also giving practical assistance. Thecentre:MK shopping centre in Milton Keynes was recently rated the highest retail-related company in The Sunday Times Green List at position 13. Centre director Robert Goodman says it is carrying out water consumption and energy audits with its retailers,

5,000

The number of businesses affected by the Carbon Reduction Commitment

£1m

The potential cost to the largest retailers of meeting obligations