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SHOPPING CENTRE RESCUE

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Kill or cure It's crunch time for the UK's older shopping centres – facing younger, smarter rivals just as consumers tighten their belts, many have not been refurbished in over a decade. *David Harris* reports

It is a timely question: what will happen to the UK's older shopping centres in the next five years? Retail is emerging from recession, but the banks are still wary of lending money and there is grave uncertainty over which centres will prosper and which will wither away.

Still, the market is turning, with some investors reflecting that buying a year ago might not have been such a bad idea – at least for those who had money to buy without relying on the banks, that is. Myles White, who runs Henderson's shopping centre fund, believes that "with hindsight, this time last year would have been a fantastic time to buy".

Lack of sales has been the most obvious effect of the recession, but the downturn has also highlighted another issue in the mall market: the UK has a significant number of ageing shopping centres, which now find themselves up against new developments – such as Liverpool ONE and Bristol's Cabot Circus – opened in the past couple of years.

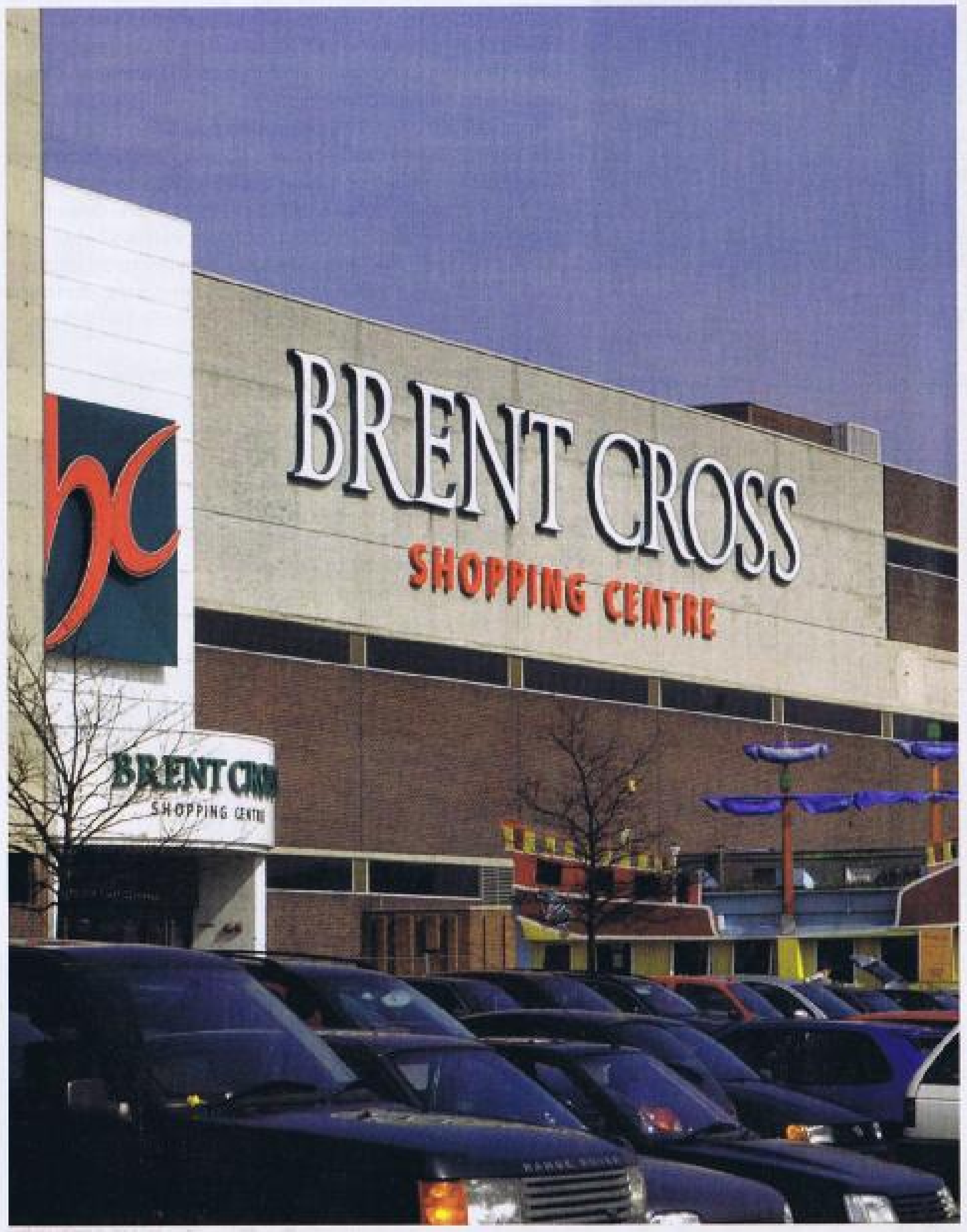
Research from Trevor Wood Associates has revealed 133 shopping centres built 30 or more years ago in the UK have not been refurbished in the past 10 years nor have they been extended in the past 20 (see panel, p43).

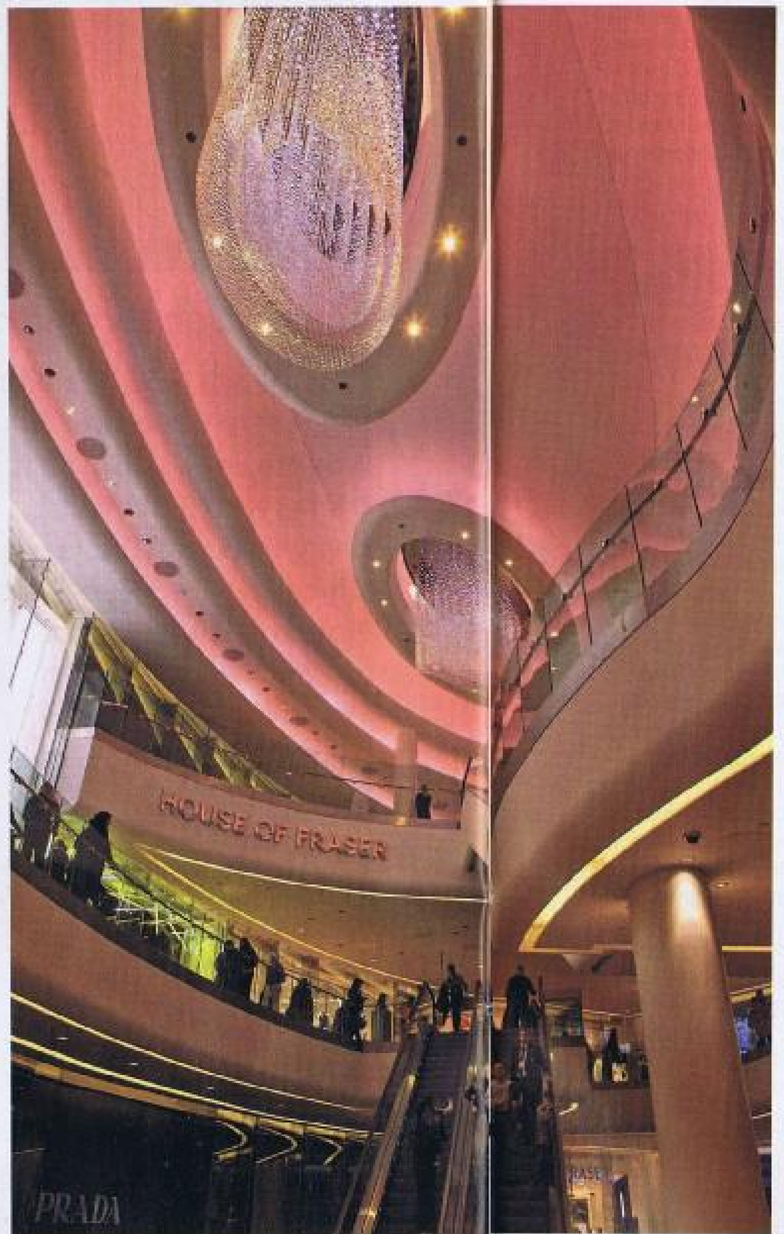
As a result of the recession, older centres are not only battling for survival against the new retail centre giants, but they are battling for every scarce penny the shoppers have. Mall managers and developers recognise the need for change, but it is the nature of the change that matters: for many owners, getting the right tenants is vital. A case in point is Land Securities' efforts to keep Hatfield Galleria successful (see panel, p43), even though the centre's retail sales were up 7% in the fourth quarter of 2009.

So if a mall that is still increasing its sales is in need of help, how is a genuinely ailing shopping centre saved? Consultant Martin Fleishman, who makes something of a speciality of revamping the tired and rundown, says it largely comes down to common sense. However, analysing a shopping centre also needs a set of skills that Fleishman believes property companies and investment funds often lack. He says: "Funds always talk about fund performance, but they rarely talk about the asset which creates that performance."

Shopping centre operators need to know the role of the centre, who it serves and for what. How much money does the typical customer have to spend and how much are they spending? Is there a particular market sector in the area that is not being served? What is the competition from other retail centres nearby?

Fleishman says: "You need to know





Then and now: many UK shopping centres built 30 years ago are waiting for refurbishment, while newcomers such as Westfield in west London are putting the old timers under pressure

BRENT CROSS AND WESTFIELD: REX FEATURES

FROM MALL TO MICROSOFT OFFICE IN ISTANBUL

It is not just in the UK that shopping centre developers have had to reconsider their plans because of the recession.

Microsoft gained its new regional marketing and sales office in Istanbul only because plans for a shopping centre in the building were abandoned in favour of offices.

The building's shell was already up when architect Swanke Hayden Connell was called in to design an office development to fit inside.

Developers Astas and Remag had decided to change direction from the original model of a retail scheme after discovering that plans for a large amount of nearby residential development had been dropped.

According to SHC design director Jason Turner, Microsoft liked the building because the company could be the sole tenant and it was within driving distance of the areas of the city where a lot of the Microsoft workforce live.

SHC created a light space within the structure by punching through the external wall and putting in a wraparound glazed fascia. The project began in early 2008 and was finished last February. Microsoft is now in occupation of a sharp new office building originally destined to accommodate shops.

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It does not help that centres are often run with crippling inefficiency. During an earlier recession, when Fleishman was involved in the reworking of the Exchange in the affluent London suburb of Putney in 1990, he went in to find that 15 tenants were in occupation without any sort of documentation. This is not uncommon, he claims, even now.

The type of shops in the centre when he arrived there were not what might have been expected, either. The anchor store was Budgens. Fleishman persuaded Waitrose to come in (with a favourable rent deal based on turnover), got Marks & Spencer as well, and put them alongside a series of specialist retailers – a hat shop, a café, a music shop, a delicatessen and a silver manufacturing jeweller.

He also worked out that the most affluent shoppers in Putney lived behind the centre and therefore approached it by its back door, which

"You need to know what consumers are spending and what they are spending it on. Footfall without average spend is a waste of time"
Martin Fleishman, consultant

was a rather grim entrance. So, on the basis that retailers want to treat their richer customers as well as possible, the centre redecorated this entrance and even put art on the walls, to make it feel more welcoming.

For other centres there may be no recovery. Fleishman says: "Part of the market is dead because in recent times people have wanted to develop where they haven't done the basics." The basics include asking the obvious question of whether the population of an area can sustain a retail development of a certain size.

Fleishman believes that in some cases shopping centres are failing "because the demographics never supported what was being proposed".

The banks now own many of these poorly performing centres. For Fleishman, one of the stories of 2010 is likely to be the discovery of the extent to which banks are now the owners of shopping centres that are not worth the money paid for them. He says: "I have a feeling that in the next year I'm going to be asked to look at quite a few of the banks' assets."

THE NEED TO REFURBISH

Most analysts agree that there are many older shopping centres in the UK that have not been refurbished or extended in recent years.

Trevor Wood of retail consultant Trevor Wood Associates says that its database, which covers 6,500 schemes, indicates that more than 100 that are 30 or more years old have not been refurbished in the past 10 years or extended in the past 20.

Wood adds: "From a total of just under 800 shopping centres covering 175m sq ft and currently trading, we found 133 that met this criteria, totalling 20.5m sq ft."

Wood adds that development proposals have recently been or are under discussion for more than 40 of these schemes.

Wood divides these schemes into different categories. The first comprises those centres that are likely to undergo refurbishment or extension in the future, "but probably later than originally planned". These include the Broadmarsh Centre in Nottingham, where co-owner Westfield confirms it has plans in place but has yet to go ahead.

Another such scheme awaiting the go-ahead is Charter Place, Watford. Tim Frost, a partner in Brasier Freeth, which is retained by centre owner Watford council to look after the centre, says that the council is "in the middle of selecting a development partner". A shortlist of five (as yet unnamed) has been drawn up.

A second category of centres where redevelopment has been mooted is described by Wood as "schemes that may need to adapt, mainly due to local competition". He includes among these Salford Shopping City, on the grounds that it has "slipped from 79 to 144 in our shopping centre hierarchy over the past 10 years".

HATFIELD GALLERIA

Hatfield Galleria, built in 1990, was bought by Land Securities in 2005 and relaunched in spring 2007. Last year, research suggested that its retail line-up could be fine-tuned.

Accordingly, since June, new tenants including Jaeger, Bedeck, Denby, Laura Ashley, French Connection, Trespass and Gap have opened stores there.

Deepan Khiroya, LandSec's retail portfolio director, says: "We have removed many of the brands we felt did not represent our core shoppers and worked hard to fill units with higher end outlet stores."

The amount spent by shoppers at the new look Hatfield Galleria in Q4 2009 was up 7% compared with the same period in 2008.