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Why retail property developers must use empty premises as an opportunity

Retail property developers have reopened around the world to the reality that numerous tenants have not survived because of either the modern challenges of store retailing or the impact of the pandemic. The onus is on development companies to find creative uses for their empty spaces that add dynamism and revenue to their centres.

After a near 18-month period like no other, retail property developers are having to reframe their offer. With many adapting rapidly to the challenges of a retail market that had been shifting sharply online, malls and high streets were already going through their own transformations. But the pandemic has accelerated change and with it required landlords to act faster, more imaginatively and introduce more innovation.

Catella's latest European retail research reflects that despite declining retail allocations among real estate investors, there will be a price point where retail property becomes attractive again and adds: "The future of problematic retail schemes lies in redefining their tenant mix and layout, introducing new uses or repurposing them altogether. These can be costly interventions, requiring significant investment that can draw back returns. The key question is the level of repricing required in order to attract value-add/opportunistic investors."

Undoubtedly that cash injection will be required to refresh retail destinations but the emphasis is on how to maintain their viability in the short-term. Malls need to find an effective way of bridging the gap between the challenges of today and long term strategies for growth and, in particular, the rise in vacant space in their malls and on the high street.

In the UK, retail vacancies have increased across all shopping destinations and regions, with the overall retail vacancy rate increased to 14.1% in the first quarter of 2021, marking a 1.9% rise from the same period last year, according to the BRC-LDC Vacancy Monitor. There are currently around 5,000 fewer stores than there were at the start of the pandemic, while shopping centres recorded the largest increase in vacancies during the period, at 18.4% compared with 17.1% the previous quarter.

The same challenges face markets across Europe but all is not lost, so long as landlords and developers are able to use the space left behind creatively. While revenues will inevitably be impacted, many believe that this is an opportunity to reset what malls, retail parks and high streets offer visitors and to provide more of a sense of place.

"Landlords are set up to lease space, not to manage empty spaces, which are complicated. And yet if we move away from square metres and revenue per square metre, in fact we have to consider that going forwards these empty spaces could be the most important in the mall," says Lorraine Dieulot, lifestyle business unit director, at Paris-based Saguez & Partners. "That's because they provide the opportunity to create a relationship with the customer and communicate the values of the location. They are the soul of the place. So they are more valuable in a way, so we need to think about what we can do with them."

As a result, she believes that landlords need to think about who is best placed to manage these flexible spaces, because "right now, something is missing" she says, adding: "The rise of food halls is based around the idea that the landlord has one relationship with the operator and the operator then manages the many tenants. This is not unlike a department store approach, so perhaps this is an opportunity for us to reimagine the department store and their role in managing flexible, multi-tenant space within shopping centres.".

LANDLORDS AS OWNERS: THE US APPROACH

Of course one way to avoid empty space is to act pre-emptively and prevent the units from falling vacant in the first place. This requires proactive intervention from the property owners and a possible precursor to a global trend is the growing ownership of retailers by leading US real estate companies, which have become some of the country's most avid brand buyers.

According to research from real estate firm Newmark and Moody's Analytics REIS, the vacancy rate for malls in the US rose to 11.4% in the first quarter of 2021, the highest in a decade. Radical times require radical actions. Some of the biggest players, including Brookfield and Simon Property Group, have opted for so-called 'friendly foreclosures' on selected malls, handing back the assets and the debt.

Interestingly, the malls Brookfield foreclosed have all lost at least one department store anchor, or house anchors in potential distress. So when Simon Property and Brookfield took matters into their own hands and jointly bought department store chain JC Penney out of Chapter 11 late last year, the rationale was not only to address anchor closures but to prevent exits by other retailers with co-tenancy agreements.

To take this further, Simon has even formed SPARC Group as a joint venture with Authentic Brands Group to acquire retail brands. The two companies now hold a portfolio that includes Aeropostale, Brooks Brothers, Eddie Bauer, Forever 21, Lucky Brand and Nautica.

Vince Tibone, senior analyst, retail and industrial, Green Street, stresses that maintaining the viability of malls has resulted in US bricks and mortar sales for Q1 2021 being "exceptional", up 12% on the same period in 2019. "E-commerce sales rose 54%. It's a very favourable overall landscape in retail," he says. "Leasing has been volatile but is increasing strongly. Mall REITs are using temporary tenants to preserve the customer experience, while generating some rent until a permanent tenant can be found."

CITY CENTRES LOOK TO POP-UP STORES

While acquiring retailers to help support the whole mall proposition does appear to be paying dividends in the States, major cities, still impacted by many workers continuing to work from home, face their own challenges. UK capital London is one such example, with the city's famous West End shopping district still suffering from a near-complete absence of tourists or city worker footfall. One possible solution as the UK has now ended COVID restrictions may be the rapid and widespread deployment of pop-ups and flexible space to re-energise the shopping districts. As Emma Jones, founder of Enterprise Nation, points out, a record number of start-ups launched last year, largely only able to trade online because of pandemic restrictions. Many are keen to get face-to-face with their customers.

Jones has been involved with numerous pop-up and temporary space projects, most notably a joint venture with Amazon to introduce makers to their audience. And online start-ups have become highly aware of what they want to achieve from taking physical space.

"They no longer want space simply to sell, they understand it's about engagement and telling their story," says Jones. "It's about being face-to-face with people who have bought from them online. I really feel that 2021 could be the year of the pop-up."

She believes that in a rapidly-changing world, the heritage of the West End keeps it in poll position. "For so many small brands the pitch is not just about footfall, it's about kudos. The cache of saying they had traded on Oxford Street is huge," she says. "We ran a pop-up initiative at Piccadilly Circus where the Tiger store now trades and it was the location that really wowed the brands."

THE RISE OF NEIGHBOURHOODS

Six & Sons at Sook, London

Specialist agencies have also formed to manage short-stay sites, with one of the longest running London-based AppearHere, founded by Ross Bailey. “Location remains important but that is now determined by the audience and where best to engage and connect with them, which is increasingly not in the centre of town but in neighbourhoods,” he says. “This is not a COVID phenomenon, although that has accelerated things, because this is a trend we saw for a couple of years before the pandemic.”

What COVID did underline is that people want to spend more time “doing the things they love”, he says. “During lockdown we didn’t miss gimmicks or technology and we had all the access to e-commerce we needed. But what people missed was coming together, their favourite small businesses, the people that serve us. We found a lot of common ground with each other.”

Bailey cites the hotel sector as an example of how upping quality and experience has allowed operators to tap into latent demand, noting that the desire for ‘staycations’ in the UK has been driven by rapid expansion of boutique hotels. “The increase in quality from more functional chains has driven a huge increase in demand,” he says. “We need that same quality in retail. Any town where there is a good collection of really strong independents is thriving.”

One company trying to capture this ethos is Sook, which opened on South Molton Street over two years ago and has a second unit at 58 Oxford Street. Sook takes over a space and gives it a clean, fresh fit-out and installs perimeter video screens. At South Molton Street, Sook has had take-up from artists and galleries, plus retailers, hosted book signings, yoga and personal instructor sessions, and evening events. It has also attracted international clients, such as Amsterdam-based Six and Sons, a platform for sustainable brands, which created a three-day pop-up at Sook in the Autumn of 2020.

“Clients can book space from an hour upwards using a drag and drop system online, or regular slots, at times to suit them,” says COO Dan Burnham. “The high street is the original social network and we want to change the business model and make it accessible and democratise retail by removing the high barriers to entry. It’s about space as a service. What’s great is that we drive traffic at low footfall times for the other retailers. The use can constantly change.”

Major landlords Grosvenor and The Crown Estate are among those to have made space available for flexible tenancies, as has The Howard De Walden Estate for Marylebone Village. Jenny Casebourne, retail & leisure director, reflects: “As we come out of lockdown, there are going to be a lot more opportunities and that will allow us to trial brands, and them trial the West End. Previously, brands such as Luca Faloni and Koibird have started with temporary space and then converted to permanent leases.

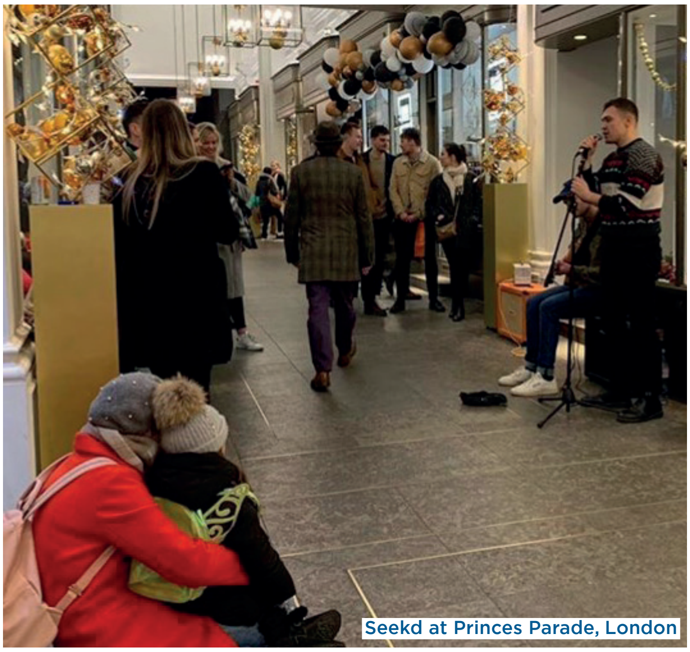
Koibird, Marylebone, London

It also gives us the opportunity to look at our portfolio – we have identified that we would like to bring in more dining, so using flexible space means we can focus on place activation.”

Another to have trialled pop-ups is Fay Cannings, founder of Seekd, which ran a multi-brand pop-up at the Princes Arcade, Piccadilly, focused on affordable luxury jewellery with The Crown Estate for three months.

Cannings believes that pop-up stores can activate spaces and mobilise people to visit. "For landlords and pop-up operators, the key is to effectively market the space, so people know it's there, and also to consider whether it's for big brands or independents and new names," says Cannings. "For established brands, off-prime locations can work because they are a draw in themselves. For new and independent brands, you really need high footfall locations."

AppearHere's Bailey hopes that landlords will continue to pivot towards shorter leases but reflects that it requires different skills. "When retailers signed long leases, the landlord representative perhaps only spoke to them once or twice a year," he says. "If you offer flexible space then tenants might be revolving every two months and expect much greater communication. It's property as a service, that's just the way it is."


Seekd at Princes Parade, London

RETAIL PROPERTY DEVELOPERS LOOK FOR SOLUTIONS

One such example of the marriage of major locations and a more independent feel to the mix is the reinvention of ECE's Potsdamer Platz in Berlin, which will complete a full refurbishment in 2022 and will include around 90 stores, a Mercato Metropolitano food hall and a Mattel family entertainment centre. The food hall is the latest in a concept that originated in the UK and is populated by independent operators.

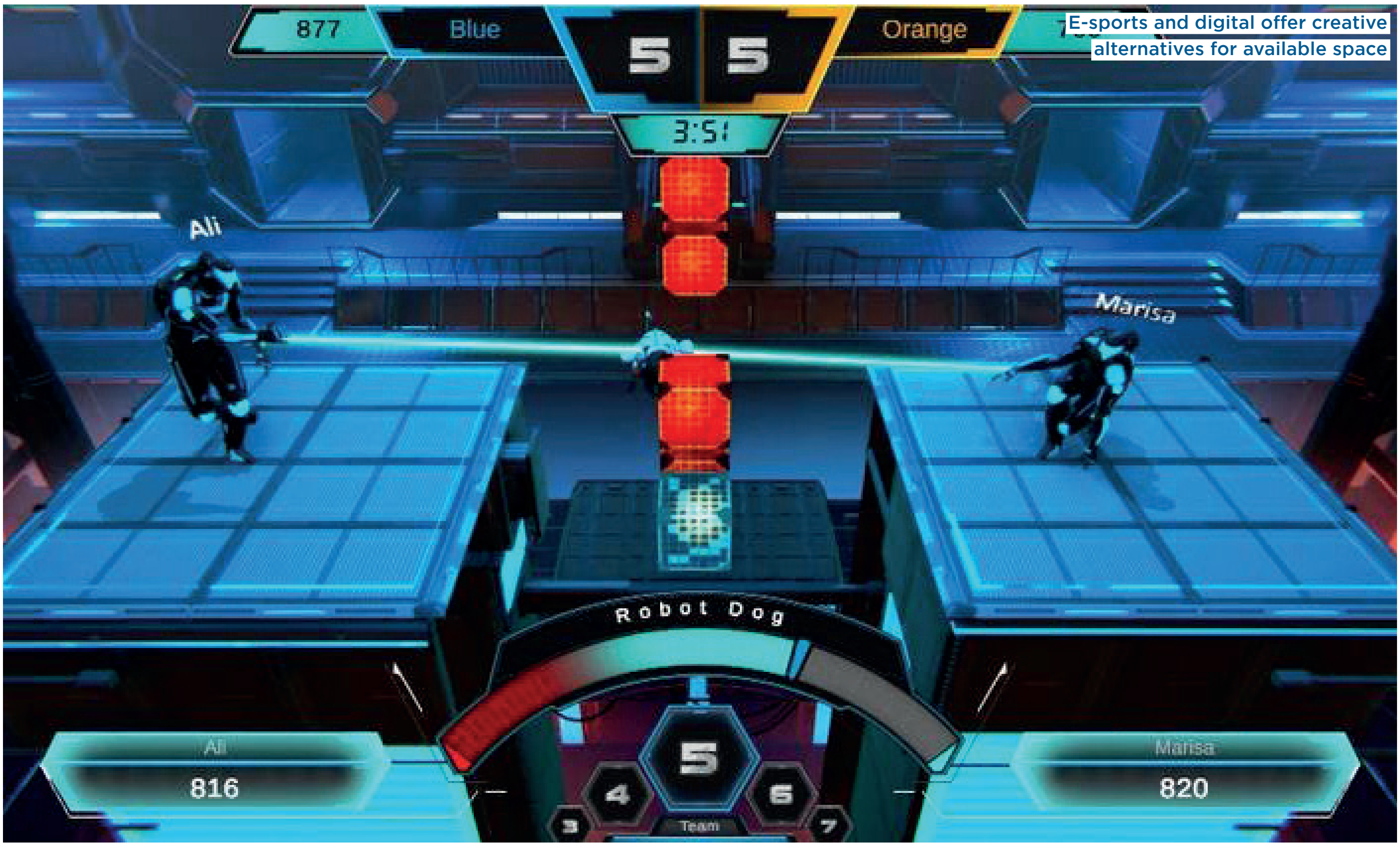
Karl Wambach, executive vice president Europe, Brookfield Properties Germany, says of the strategy: "We basically identified an opportunity to recreate a public high street, basically bringing the materials from the public realm inside and de-malling the mall, creating six individual, unique buildings, with their own architecture."

"What we can see is that people want a sense of place and that is more important than ever in neighbourhoods," adds Dieulot of Saguez & Partners. "We need to think about bringing new experiences and things that connect with their location. Copying what has been done elsewhere is not a recipe for success and we have to ensure that agility is not just the preserve of online.

"We have a complex generation, so for retail it is not about central or neighbourhood. They have a decentralised view and it will require different approaches. So neighbourhoods may need more, smaller units but for a destination then there is that need for discovery and experience, to amaze your customers."

The upcoming Mercato Metropolitano food hall in Berlin

LEISURE AS AN ANSWER TO EMPTY SPACE



E-sports and digital offer creative alternatives for available space

"The market is changing and many companies are looking at the role of family entertainment centres (FECs) as a way of driving traffic and increasing dwell time," says Peter van Bilsen, executive vice president sales and marketing, Vekoma. "There are all sorts of leisure options, including media-based installations and e-sports, which are especially suitable for malls. But the common connection is that people are looking for immersive experiences."

However, van Bilsen says that predicting future trends is challenging and advises that destinations work hand-in-hand with specialists on their strategy.

"I would definitely advise landlords to co-operate with other partners, because we don't know how the future is going to evolve," he says. "We are especially seeing increased interest in dark rooms and larger e-sports facilities, at a larger level, as we see the development of more advance lifestyle options."

He points to development in Asia, where large scale malls with a strong lifestyle element continue to perform strongly, proposing that this is something Europe's larger shopping centres should be thinking about over the next 10 years.

"My advice would be for any landlord to look at the options over the next decade – we know the market will evolve more towards e-commerce – and work out how leisure fits to make the shopping centre more attractive, or even to consider its role in survival mode," says van Bilsen.

F&B A CHALLENGING SOLUTION TO EMPTY SPACE

Cuisine such as sushi may prove more suitable for pop-up space

The use of temporary space for food and beverage (F&B) is not very developed in comparison with retail, according to Vincent Mourre, CEO of Whitespace Partners, who says: "It's much easier to open retail units because the fit out is cheaper and there is no need for catering equipment, especially given that these are often just available for six months or 12 months."

He adds: "Equally, it's unlikely that many department stores will be converted to food halls. In Europe most of the anchors are still there and they would be complicated to redevelop and a major technical challenge. In my opinion, the DNA of food halls is not in shopping centres at all. What we are seeing is innovation such as the recent Unibail-Rodamco-Westfield redevelopment of its La Part-Dieu flagship in Lyon, France with a 30,000 sq m rooftop space dedicated to culture, leisure and dining."

Instead, he believes that in malls it is more likely that the use of food trucks will drive the take-up of empty space or food-based animations, because they are easier to bring in and out and offer something new for the destination.

"What we are yet to see is a specialist operator that brings in F&B operators to these vacant spaces," he says. "Perhaps this is something that might emerge for cuisines that do not require extractors to operate, such as sushi for example. This would make it easier for operators to take up vacant retail units."

While F&B operators will start to look to the future, Mourre feels that the short-term challenges will inevitably dominate the coming months. "Restaurant operators are of course happy to be open again but right now the big challenge is staff shortages," he says. "It may take some time for them to address this and in addition, while operators have become very experienced at the stop/start nature of business over the past year, there remains a lot of uncertainty and most are putting development plans on hold."

In addition, he says that at the moment finance is hard to come by for F&B businesses, as access to this tends to be based on the last year of financial reports and obviously these are not strong for most F&B companies.

"Credit is likely to be easier once they can report a strong year and we expect more activity in 2022," says Mourre.

DIGITAL INNOVATION CAN DRIVE MALL FOOTFALL

SPREE's multi-user gaming has proven popular in Munich

One of the most adaptable ways of bringing leisure into a retail environment is to harness VR, AR or mixed reality installations, according to Jonathan Nowak Delgado, managing director and co-founder of SPREE Interactive. With outlets at a number of global locations, Delgado says that it is in Munich where the company has started to fully see the impact that using technology could have on attracting visitors.

"When we did a customer survey of our visitors at the Forum Schwanthalerhohe, Munich, we were surprised to discover that 80% of our customers were in fact first-time visitors to the shopping centre," he says. "This was the opposite of what we anticipated and showed that rather than going to where the footfall was, we were helping to drive footfall. As a result, we are in discussions to enlarge the current 200 sq m unit for an 800 sq m space."

SPREE Interactive's set-up provides people with a 30-minute experience and can accommodate up to ten users. Delgado adds: "This is quite unusual and gives us an advantage as we can host, for example, birthday parties. With the larger outlet we are looking to increase the duration up to two hours, with a mix of VR, AR and other physical activities and widen the appeal to teens and youngsters."

He stresses that the advantage of technology is that the attraction can be easily changed with the "press of a button" and also that the content can be adapted, so for example in the mornings the company has been running content designed for school class visits.

"In terms of landlords first trying VR out, it is worth considering trialling with pop-ups and seeing what works," he says of the first steps to introducing technology-led leisure into retail destinations. "A temporary pop-up also adds that sense of urgency. The key is to try things out and to constantly evaluate. In Munich, we have been marketing together with the landlord across television, online and social media and this works very well. We have also linked with events such as Christmas, Halloween, Oktoberfest or football competitions."

For more strategic execution, he says that the first thing is to consider the objectives, whether it is primarily profit or footfall. "You can define the KPIs and decide with each location what is required. For example, at Mall of Qatar visitors could play the first time to win the chance to buy particular products – so it was very linked with the retail offer," he says.

NO MORE SHOPPING CENTRES: TIME FOR MEETING PLACES

Alessandro Gaffuri, founder and CEO, CELS Group, says that now is the time to completely rethink shopping centres and what they are for.

“At the heart of the topic is the need to create ‘favourite meeting places’, which is not a new concept but which is more important than ever,” he says. “It was something that was pioneered by Corio and which right now Ingka Centres is really trying to take forwards, because it has a different vision as it wants to drive people to its IKEA stores.”

Animating spaces has to be about much more than just adding a new F&B section or a family entertainment centre, he says, warning: “That is just patching up the issue.”

Instead, he believes it is about having a “different perspective”, pointing to the lead taken in some Gulf markets. “At the moment we see a lot more adventurous approach to this in the Middle East. I fear that in Europe too many companies are trying to fix the problems with traditional solutions for the same old shopping centre business model,” he says.

“I really believe it’s about experience. A lot of landlords are working on e-commerce platforms but there are already companies out there doing that much better. So you really need to be looking at how you enhance and add to your digital work to attract and entertain visitors,” says Gaffuri. “For example, it’s much easier to bring art to a mall in the form of temporary exhibitions and installations than bring people to the museum.”

While Gaffuri would like to see more innovation, he does feel that things are changing. “Go back 18 months ago and it was pretty much impossible to propose free space for anything that was not retail-related,” he recalls. “Now people are much more open. The challenge is that we are asking the industry to look at the longer term at a point when the short-term is so unknown. In Europe especially, many investors are adopting a ‘wait and see’ approach but the need is for creativity and to be more adventurous.”

SHORT-TERM TENANCIES: A SMOOTH HAND-OVER OF BUSINESS ACTIVITIES

“French law is known for providing a very complex regulation of commercial lease agreements, strictly governing, among other elements, their duration - whether three, six or nine-year terms - the evolution of the rent amount, and the consequences of lease termination, with a right for the lessee to obtain an indemnity should the lease be terminated upon its term by the landlord.

However, this strict French legislation does not apply to temporary lease agreements, for which parties have freedom to determine the terms and conditions applicable to their relationship.

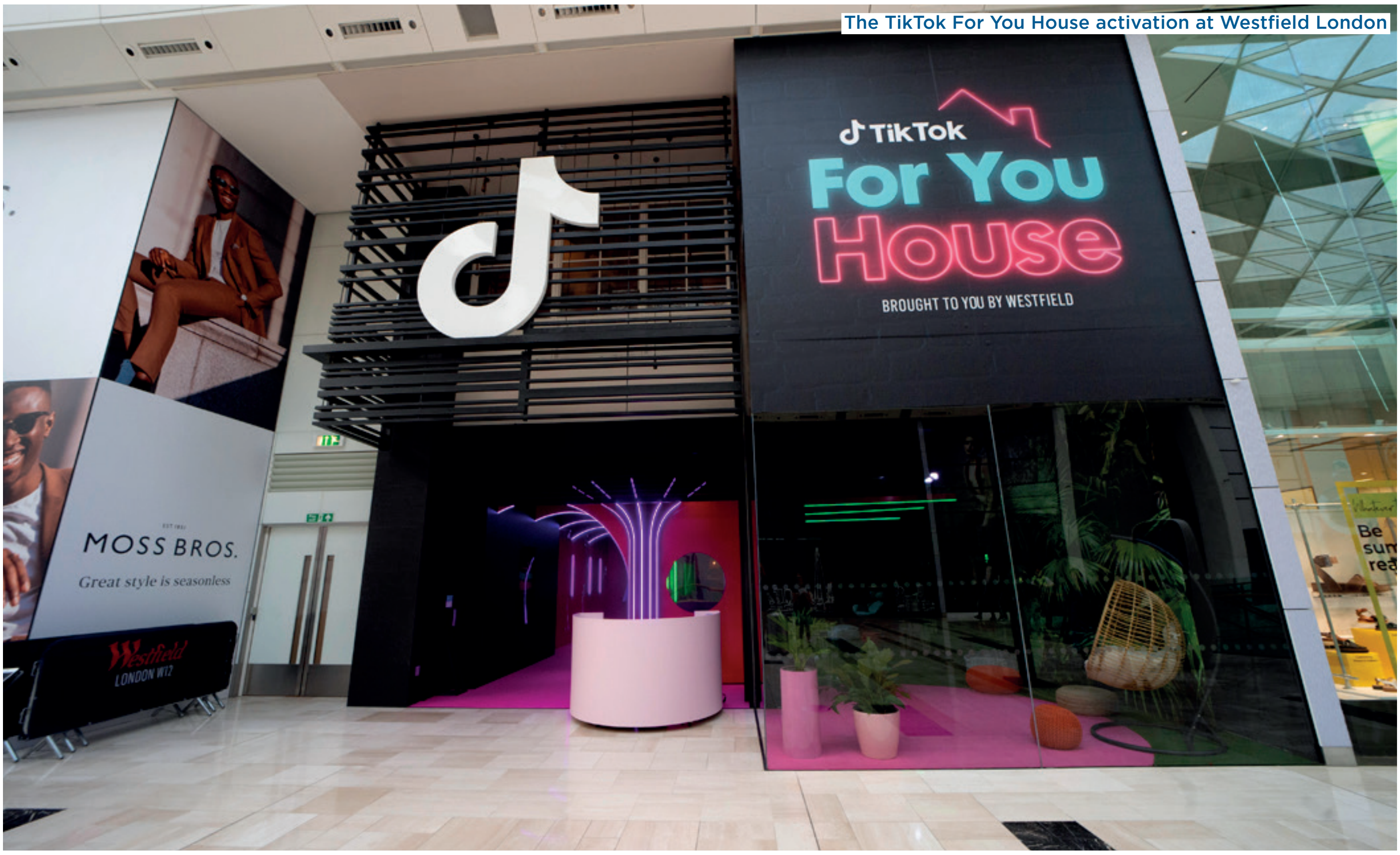
A temporary lease agreement can be executed subject to the following main conditions:

- If the duration of the occupancy is less than three years, thus allowing the lessee to experiment with their concept and premises for a short period, while the lessor does not have the obligation to pay an indemnity upon expiration of the lease agreement’.
- A written agreement is not mandatory but strongly recommended to avoid misunderstandings and expressly exclude application of the commercial lease regulation.
- The use of the premises must be defined, and shall specify which activities can be operated by lessee in the premises; however: «all business activities» leases can be allowed.
- The landlord can impose that the lessee bear any and all costs related to works and repairs, except for the ‘material works’ arising out of Article 606 of the French Civil Code.
- The rent amount can be freely determined by the parties, and be composed of fixed rent and/or a percentage rent.
- The parties shall ensure that the consequences arising out of the lease termination are specified: does the lessee have to return a ‘white box’ to the landlord or can the premises remain in their current state?

A simple and clear temporary lease agreement can thus be signed between the parties to state the conditions applicable to their relationship, for a short-term period, allowing a certain flexibility so landlords and lessees can together address the uncertainty of the current pandemic period.”

Cecile Peskine, attorney, Link & A

URW AND TIKTOK PARTNER IN LONDON



The TikTok For You House activation at Westfield London

Unibail-Rodamco-Westfield has brought social media platform TikTok to its flagship Westfield London mall, opening the first TikTok For You House on 22 July. The collaboration marks the first time TikTok has taken up residence in a pop-up venue in the UK, with the partners offering visitors the opportunity to meet successful TikTok influencers and try their hand at creating their own mini-movies.

The 370 sq m temporary venue will be open until 8 August and the outlet's design has been inspired by TikTok's homepage. The URW-initiated project includes some of the UK's most popular TikTok creators with a combined near 100 million followers - including British teenager Kyle Thomas, comedian Ehiz Ufuah, chef Poppy O'Toole and freestyle footballers Jeremy Lynch and Ben Black.
Holly Harrison, fashion and retail brand partnerships, TikTok, says: "Creators are at the very heart of the TikTok experience, and to be able to celebrate them once again in real life with this incredible activation at Westfield London is a unique chance."

The pop-up is not selling products like a traditional store, although those attending events will be given free TikTok merchandise. The social platform has called For You a "unique IRL experience", allowing aspiring TikTok stars to book free sessions to use the venue to create their own mini-films in a house style format over two levels and four rooms. The Living Room is the hub of the House, showing the power of editing; The Kitchen is showcasing viral recipes and cook offs; The Dressing Room is hosting beauty, fashion and transformation challenges; and The Garden is being used to teach sports tips and tricks and dance routines.

Harita Shah, who is heading up marketing for UK events at Westfield parent company Unibail-Rodamco-Westfield, says: "Having a physical space at Westfield London gives TikTok the chance to immerse shoppers and new creators in full 360 experience where the best of the online platform merges with a real-life experience."

THE CITY CENTRE MANAGER VIEW

“The temporary use of vacant spaces is often mentioned to deal with commercial vacancies and strengthen the attractiveness of city centres. It makes it possible to test concepts, it meets customer expectations and the needs of certain brands to test operations.

While the principle is increasingly attractive, implementation is not without difficulties. I receive calls almost daily indicating empty premises that might be suitable for testing innovative business activities. Very often the premises cannot be marketed because a project or a transfer is in progress, or an upgrade requires major work for short-term occupation.

If, however, the premises is marketable, it is often the owner who opposes a temporary lease, preferring to wait for a permanent rental. The lessor wishes to guarantee the possibility of quickly renting in a conventional form if the opportunity arises, which limits temporary occupancy periods and possible renewal possibilities. Over very short periods, the creation of event pop-ups or exceptional opening weekends, for example, also come up against practical questions of insurance, the opening of temporary electricity meters, instruction deadlines for fascia requests, etc.

The city centre, while it offers possibilities in this area, remains a difficult testing ground for temporary shopping activities. Unlike a shopping centre manager who controls the environment, the city centre manager must negotiate with many partners to reach an agreement.

However, once these steps have been completed, a call for projects can be launched through the press and on social networks to present the possibilities. Many players such as jelouemaboutique.com, shopshop.fr, mypopcorner.com, popmyshop.fr, popuimo.com or mypopupstore.fr can also be called upon.

Beyond the individual agreements made with the owners, Roubaix is considering the possibility of using mobile shops on strategic axes for the revitalisation of its city centre. The Roubaix Cote Commerce Association, in charge of the revitalisation, is carrying out a gallery project in the former Banque de France, where a good part of the dozen stores planned will be made up of temporary installations.

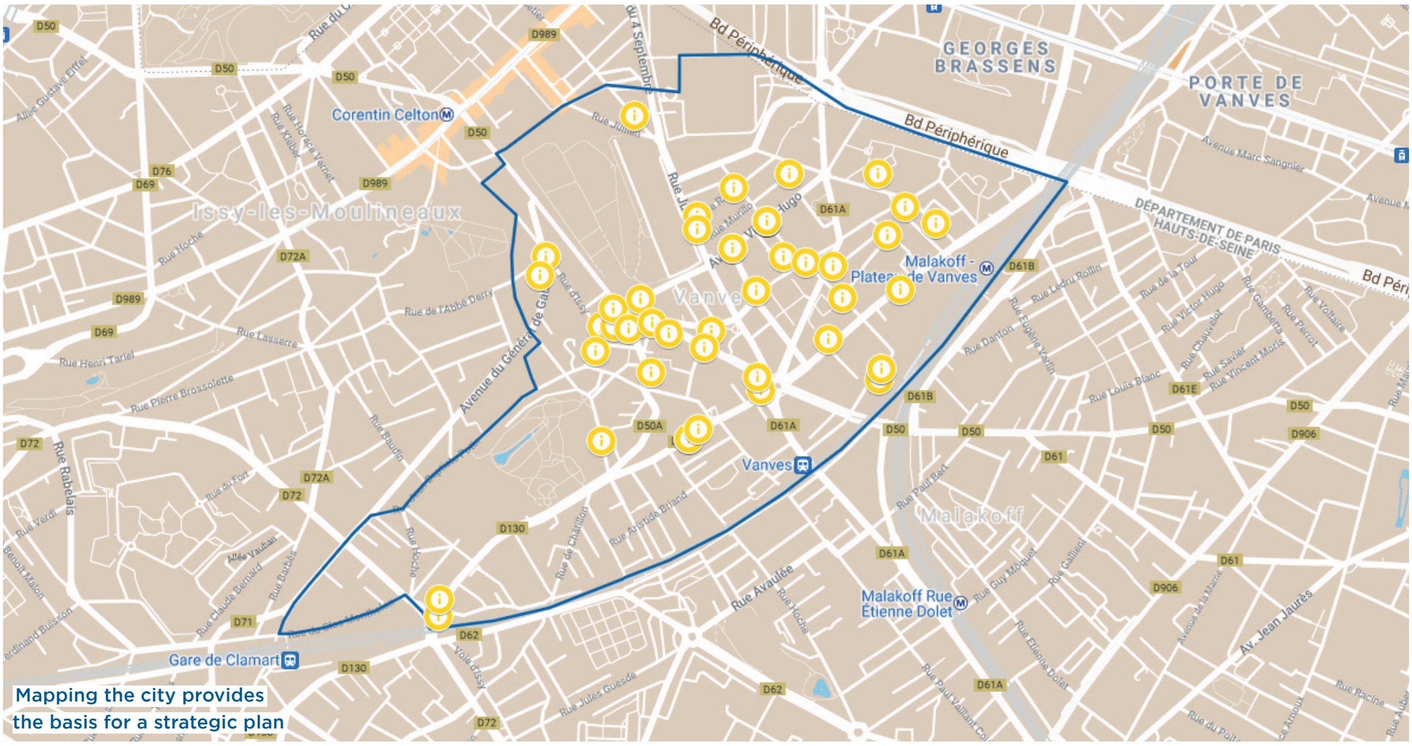
Artistic collaborations are frequent. Installations in windows or inside unoccupied stores allow neglected properties to be highlighted and to establish positive contact with their owners, such as the Couvent of the Clarisses, which will become a place of life, mixing street food and eco-responsible temporary stores.

This is not a miracle solution but an important lever available to city centre managers and municipalities. In the provinces, these practices have yet to convince, in particular investors and owners. In city centres, their development must take place in controlled contexts, for the municipality to promote.

These cannot become the rule, but rather constitute an interesting alternative while always keeping the long-term establishment of an attractive offer as the final objective.”

Nicolas Mollet,
city centre manager,
Roubaix Cote Commerce

UNDERSTANDING THE DIFFERENT CITY USES OF SPACE



Mapping the city provides the basis for a strategic plan

“My first action was to list all the vacant spaces in the city. I did a field tour on each street, which allowed me to have a clear view of the vacant spaces. Then, I created an Excel sheet with all the data I could find like what was the activity before, plus pictures and with this Excel sheet I was able to create a mapping. The third action was to collect data from the city hall open data, which included the name and address of the vacant space’s owner. Thanks to this information, I am able to reach them and with the data collected and the tools created, I’m able to promote the empty stores to entrepreneurs.

“In my opinion to enable this we need the maximum data. There is a survey which showed that nine out of ten people think that buying in a local store is a political act. Since the pandemic, many malls are deserted by the consumers in favour of local stores. I think investors have understood this trend.

Our challenge as the city manager is not to find more investors but to be able to help them find the right empty store. This is why I’m working on this list and I always need more information to be more reactive, so that I can respond to those investors before they go to another city.

To me, there are three kinds of flexible space: pop-up stores, which present weekly a new brand; testing shops, where an investor can test a shop over six months to a year; and as a third place.

In Vanves, we launched a pop-up store this spring but even though we had enough applications to present weekly a new brand in the pop-up store, we thought that was not the best strategy regarding our city. Now it’s more like a testing shop - the first investor had plan to stay few weeks but eventually asked to stay longer and because it offers a service we didn’t have yet in the city, we chose to keep this for the next six months. This pop-up store was a vacant space and now, because there is activity inside, we have received a lot of calls from investors who want to rent this shop. So we may move this pop-up store to another vacant space to promote it.”

Masis Serenyan,
city manager,
Vanves

FLEXIBLE SPACE IS JUST A NATURAL EVOLUTION

Huda pop-up, Covent Garden, London


Mohamed Haouache, CEO, Storefront

"There has been a strong pick-up since March, when stores started to re-open around global markets, and since then we have seen activity increase, especially in the US, France and the UK. Asia hasn't seen quite such a spike, but that is mostly because those markets locked down harder and were able to reopen much earlier.

Pre-COVID the market was looking for short-term options, now I think landlords are seeking flexibility. The fixed revenues model is a concept of the past, replaced by variable revenues. For some landlords that has been a bitter pill to swallow but the only real options are to bring down rents or to look at the opportunity to use pop-ups to fill empty space left by legacy retailers.

Right now we are in a transition period and the priority is to reduce the vacancy rate and to use the space to entice people and drive footfall. Going forwards, it needs to be about attracting direct to consumer brands and digital native brands, capturing a different market segment. Previously perhaps landlords used these spaces as a way of advertising that they were friendly to new companies and start-ups but for them this is now a core activity.

Landlords need to be considering their options differently. Previously, the emphasis was on the financial stability of tenants but the question has to be whether a stable business with a dull retail offer is worth more than a new, exciting brand that has one million social media followers?

The answer is likely to be that there is a mix of legacy retailers and new brands. This will be mandatory, going forwards. We have a once-in-a-lifetime opportunity to capture these new brands. The next generation of consumers may buy more online but they also like physical experiences, yet we don't see many of them in our malls.

So bringing in these new brands is a win-win but the mind-set needs to change. For me the space needs to be free, to capture these new shoppers, because the old model is broken. This is not surprising, it's like Airbnb in hospitality, it is just a natural evolution. We see it in China and Japan, which are hugely competitive and therefore very advanced. They just innovate over and over again."

Mohamed Haouache,
CEO, Storefront

RETAIL STILL ROBUST DESPITE CHALLENGES


Hammerson has encouraged brands with strong influencer backing to Dundrum, Dublin

Landlords continue to face a dilemma, as they emerge from lockdown, of filling empty space, encouraging visitors, but continuing to be mindful of restrictions and a sense that many shoppers may not welcome being in overly-crowded environments. They are also picking through the implications of tenant reprofiling, as different sectors performed differently during the pandemic.

"It's an evolving situation and I don't think anyone has a completely clear view on how things will develop," says Dublin-based Larry Brennan, head of European retail agency, retail, at Savills. "What we can see is that department stores are facing big challenges, as are large and mid-sized fashion retailers. And we are going to see ongoing portfolio reviews. That said, we may have seen the worst of it in terms of administrations and CVAs in the UK and Ireland. Across Europe more generally, where there has been more protection and financial support, that may not be the case."

While mall owners and city centre managers have been urged to be more creative, Brennan points to a number of department stores and units which have been let to retailers after being vacated and says that the demand for space – at least in busy and prime centres – remains robust. That said, he welcomes some of the new brands that have taken the opportunity to trial physical space.

"The first thing I would say is that if anyone doubted the relationship between retail and dining, then recent times should have ended that. The malls and towns where outside catering has been added have performed far better than those which did not," he says. "Shorter leases have also allowed brands to test space. On Grafton Street in Dublin Canada Goose had a temporary space and had a great run. It would be no surprise to see them back with a store."

Brennan also points to the approach from Hammerson, which at its Dundrum Town Centre mall has targeted brands with strong social media followings and has tapped into the influencer community, featuring the likes of athleisure brand Gym+Coffee [One Direction's Niall Horan is an investor] and OKO Jeans.

"I think retailers are less focused on standard retail and have opened up a bit," he says. "They are more ready to look at these new brands and new sectors, such as electric vehicles."

As for the future, Brennan has not seen a major shift towards turnover leases and says instead that Savills is noting more focus on the "operational side" of leases, pointing to retailers challenging service charges and expecting value for money in any costs.

"Customer engagement is key and as a retailer I would expect a mall to demonstrate what it is doing to attract the right customers, he adds. "It's not just about footfall. It has to be qualitative."

Q&A

ANAND REMTOLLA, HEAD OF NEW PROJECTS, NHOOD


Merlata Bloom, Milan


Anand Remotolla, head of new projects, Nhood

MAPIC: What strategies are you using for vacant space? And what do new services bring to your centres?
AR: "We created a specific commission - with a mix of people from various important cultural companies and associations - dedicated to all relevant leisure and cultural activities. This way we will be able to enhance our vacant premises by delivering exclusive art and culture exhibitions, performances, items and goods linked or sponsored by museums, opera and theatres, edutainment, etc.

Our centres must become more lifestyle destinations than shopping places by offering a unique experience. For example, at Merlata Bloom Milano we have created a 10 000 sq m food hall bringing together exclusive high street concepts not seen before in a shopping mall in Italy and around 20% of our GLA will be dedicated to leisure and entertainment, with a cinema and theme park.

For the next decade, leisure will be a key element to create a successful lifestyle destination as well as innovative food experiences. We are working on two options to strengthen our leisure and culture destinations: welcoming renowned and first-class brands such as Lego, Disney or Barbie, true footfall builders connecting leisure and retail; and developing 'eatertainment' with meeting place concepts combining food experiences, where family and friends can enjoy music, live sport broadcasting, sports activities (mini-golf, pool and snooker, games, etc).

We are also developing a strong partnership with local and tenant associations to create a new form of flexible contract based on turnover rent, which will allow us to test new types of concepts, local designers and innovative pop-up stores."

MAPIC: What trends are you observing in terms of flexible space?
AR: It gives us the opportunity to create a phygital experience by bringing new brands from digital (DNVBs, but also strong market places). The basic principle is that those brands were born on the internet and started to sell exclusively online to niche audiences, taking advantage of lower overheads and easy access to consumers to grow their business.

Ironically, the next step for those DNVBs is to open more and more physical shops in specific locations to represent their own identity and atmosphere as we are seeing with brands such as Amazon, Zalando and AliExpress.

With all the leisure, cultural and iconic experiences that we will try to offer in our shopping centres, we will be creating new flex spaces with a strong DNA that will make the DNVBs want to meet their/our clients physically.

We are also seeing new services such as co-working spaces, health care centres, but also cultural spaces: we are talking in Italy with some prestigious museums for example.

MAPIC: In the longer term do you think flexible space will be part of a wider strategy for retail centres?
AR: Absolutely, we should offer more flexible spaces, easy to improve and upscale. Fashion, leisure and F&B are continuously evolving and they can adapt their business models and concepts to a versatile and new kind of consumer. Our shopping centres need to be more and more flexible. Our lease contracts will be more flexible (together with local contract laws) as well, allowing us to switch or close those who are not profitable nor creating value.

I also think that it is worth the cost for both flexible and mall spaces that will be more strategic and relevant businesses within the next few years. We are structuring a new specialty leasing department dedicated to this strategy.