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It's not just about the shopping...

In the fifth in a series of retail updates, BTG Global Advisory highlights growing confidence in retail as new retail centres mix shopping with dining and entertainment to offer a holistic leisure experience that reflects changes in consumer behaviour.

Sometimes you could be forgiven for believing that UK retail starts at Selfridges on the western extremity of Oxford Street and ends at the M25 orbital road system around London. But in fact, it is in the country's regional cities that development is pushing forward, while the very nature of the high street is changing as leisure, food and beverage (F&B), and community services begin to populate the byways that were once the almost exclusive preserve of the country's big chain stores.

A distinct uptick in retail development is expected in the UK from next year, with large schemes already in the pipeline and new projects on the horizon. This surge in activity will be led by Hammerson's Victoria Gate (117,100 sq ft/10,878 sq m) in Leeds – the largest addition to the UK market since Westfield Stratford – followed by the Westfield-developed, Meyer Bergman-owned Bradford scheme (51,500 sq m) and the regeneration of Bracknell town centre (53,900 sq m), anchored by the first new department store for Fenwick in nearly a decade and a half.

Further out there is the Land Securities/Crown Estate scheme in Oxford and the co-development of Croydon by Westfield and Hammerson. And there is plenty more redevelopment and reinvention outside the M25.

First up is Friars Walk in Newport, Wales which opens on November 12, in what Stuart Harris, Commercial Director and co-founder of developer Queensberry, describes as "an exciting time for the city". Meanwhile, Hammerson has announced the extension of its Union Square development in Aberdeen, Scotland. In addition to new retail and leisure space, there are plans for more parking and a hotel, complemented by a reconfiguration of part of the existing shopping area.

A planning application for a major new designer outlet village in Cannock has also been submitted for the circa £115m Mill Green development in the West Midlands. With approximately 130 designer-outlet retail units (off-price shopping), new restaurants and around 2,000 car parking spaces, the 23,758 sq m village would be the biggest development of its kind in the region. Progressed in phases by partners Development Securities and Rioja Developments, it is proposed that the retail and leisure destination will include a mix of designer brands.

It will also join the new Midlands designer outlet backed by Chinese conglomerate Genting adjacent to the NEC and Birmingham International Airport, which will also include a hotel and casino.

National Development

One of the busiest developers has been prime regional shopping centre owner intu, which has received assent for its planning application for the transformation of intu Milton Keynes. The project focuses on the redevelopment of Midsummer Boulevard and Oak Court to add 100,000 sq ft to the 430,000 sq ft shopping centre, including a new dining quarter and a five-screen boutique cinema.

The proposed work at intu Milton Keynes is part of intu's £1.3bn development pipeline in the UK over the next ten years. The shopping-centre owner has also submitted an application to redevelop Nottingham's intu Broadmarsh, and is also working on a £42m restaurant and mall refreshment project at intu Victoria Centre in Nottingham and a £19m cinema and restaurant extension at intu Potteries in Stoke-on-Trent.

Chief Executive David Fischel says: "We are moving forward strongly on a number of fronts and particularly with our active development projects both in the UK and Spain."

Elsewhere, the Bracknell Regeneration Partnership – a 50:50 joint venture between Legal & General Capital and Schroder UK Property Fund, together with Bracknell Forest Council – is developing the Northern Retail Quarter, which will provide new retail, leisure and residential developments within landscaped public spaces. The development's principal occupiers will be a three-storey Fenwick, Marks & Spencer, Primark and a 12-screen Cineworld multiplex, in addition to the existing Waitrose supermarket. The regeneration will be completed by spring 2017.

Paul Stanworth, Managing Director of Legal & General Capital, says: "Legal & General wants to regenerate cities and towns across the UK. The UK is a great place to invest. Pension funds and sovereign wealth funds want to invest here in infrastructure, direct investments and property."

The Scottish Dividend

In Scotland, both Edinburgh and Glasgow are revamping their retail offerings. TH Real Estate is behind the £850m remodelling and regeneration of a ten-acre site at the east end of Princes Street, which is currently occupied by the tired St James Shopping Centre. Much of what sits there today will be cleared to create space for a mixed-use, retail-led St James Quarter scheme, which will make use of the existing John Lewis as an anchor, but will also include homes, a hotel and lots of leisure. It is expected to complete in late 2019 or early 2020.

Martin Perry, Director of Development at TH Real Estate, adds: "The issue for Edinburgh is that it's a top ten UK city without a major shopping centre in or near the city. So for us, there is an opportunity to do something that is an awful lot better than the current situation with a ten-acre site already anchored by John Lewis."

Meanwhile, Land Securities' Buchanan Galleries in Glasgow is being extended to provide large retail units and to ramp up its food and beverage provision. Already the dominant shopping destination in the city, it will be extended by owner Land Securities, which bought out partner TH Real Estate in October 2014. An extension is due to complete in spring 2018 and will house over 100 shops, 25 restaurants and a ten-screen cinema, bringing the scheme up to 1.2 million sq ft. Marks & Spencer, John Lewis, Superdry, Mango, Next (large extension) and D&D London are among those who have committed to the scheme.

The London Area

Further along the line, the biggest news is all about south London satellite town Croydon, where rival developers Hammerson and Westfield have decided to put aside their competing redevelopment plans and co-develop a massive new project. In the meantime, the council in Croydon has agreed to loan retail development company Boxpark £3m to finance a pop-up mall in East Croydon. The money will help to set up a shopping centre similar to Boxpark's mall in Shoreditch, constructed of refitted shipping containers, at the edge of Ruskin Square. The mall, scheduled to open next summer, will include 80 shops, bars and restaurants. Developers are currently ploughing millions into Croydon, which lies on the outskirts of the UK capital and was badly hit by riots in 2011.

Notable schemes include a £1.5bn Westfield/Hammerson joint-venture shopping centre with 600 homes, which could open by 2018.

Shift in Space Use

What all of the new schemes will have in common is a large leisure component – whether that be food and beverage, entertainment or cinemas. And those components, which once sat at around 6% of the average shopping mall and are now nearer 20% at the newest schemes, have also extended to the UK's high streets, with leisure beginning to dominate some previously shopping-only streets.

That food and beverage is continuing to enjoy huge success emanates from a confluence of factors – increasing dining out throughout the day (in industry parlance, splitting the opening day into 'day parts' where different meal occasions are catered for), a better range and quality of food offers, the appetite for something new from consumers and for differentiation from landlords and, of course, the decline in shop numbers.

In terms of the high street, leisure has also been boosted by more relaxed planning laws, which have enabled commercial premises to be converted to residential use in a bid to repurpose unwanted property and help meet the UK's chronic housing shortage. This, in turn, has been particularly focused on apartment living and that move is returning people to town centres and increased dwelling density. For a clear example of the economic boost this provides we need to look no further than the United States, where much of downtown USA is enjoying a renaissance, and this new, often predominantly younger demographic, is seeking local amenities on the doorstep and is revitalising many previously under-used town centres.

"It's about place-making," says James Cons, Managing Director of Leslie Jones Architecture. "But landlords need to be aware that F&B operators are becoming more demanding. They want a proven pitch, good car parking and easy access. They want to be close to the action and they are less willing to compromise."

It is a global phenomenon, according to leading global real estate advisor CBRE and its 'Food And Beverage In Shopping Centres' report. The views of 22,000 consumers in 22 countries across EMEA showed that 41% preferred to eat in shopping centres, compared to 10% in restaurants and cafes on the high street, and 7% in retail parks. A third of those interviewed visited shopping centres with the sole intention of eating or drinking. Four out of ten then went on to shop, even if their reason for visiting the centre was just to eat or drink.

Andrew Phipps, CBRE's Head of Retail Research and Consulting, EMEA, says: "It is clear that the presence of a compelling food and beverage offer is key to driving footfall and revenue. Now they are a draw themselves and the lure of a well-conceived and excellently delivered eating and drinking experience is what really gets consumers excited."

At Your Leisure

Equally, entertainment is becoming a growing presence. In the UK, Westfield London welcomed KidZania to its shopping centre earlier this year, with a further one or two sites expected to open around the UK in the future. Meanwhile, rival formats are also expanding, many based on education as well as entertainment.

Around 18 months ago, Land Securities snapped up the X-Leisure fund, a portfolio of 16 schemes including Xscape in Milton Keynes and Brighton Marina, encompassing cinemas, the largest real snow slope in the UK and a host of sporting attractions and family offers. Head of Retail Parks & Leisure Polly Troughton says that the overriding recent leisure trends will continue but that shopping centres need to recognise whether their strategy is an asset management tool or to fill space. “Leisure is not always complementary and it doesn’t always work,” she points out, giving the replacement of the theme park within the Metro Centre, Gateshead, with a cinema back in 2008 as an example and the ski slope at Xanadu, Madrid, as another. “In Spain, people came for the ski slope, but they weren’t in the right mood for shopping – it didn’t complement the mall,” she says.

Troughton also notes that what works changes with time. “What we have with leisure of course is the experience role that it has to play in an internet age. The right offer can certainly really boost a retail centre, appeal to an important demographic or expand a catchment, which are all good for the retailing and footfall,” she says. “At the same time it might be about updating what you have, so for example in Milton Keynes we have replaced a large family bowl with a cooler bowling offer and made space for more F&B units. Tastes change all the time.”

Ben Grose, Head of Retail Assets at British Land, believes that the introduction of leisure will continue to permeate at all levels, as shopping destinations seek to differentiate and attract footfall. “There are so many examples, from a recent street food trial we ran at four of our centres to gyms, mini golf, the Sky Zone trampoline concept [from the US], boutique cinemas and so on,” he says. “While KidZania represents one end of education, I believe we’ll also see an increasing number of tuition centres incorporated within retail destinations and an increase in activities related to local heritage.”

Troughton also sees diversity as a key component of leisure’s future role. “At Glasgow and Oxford we’re not necessarily looking at large-scale leisure, but instead at something different to what’s available in those cities and ensuring that whatever we do is the best available in that location. To me that’s really crucial. So at Oxford, we’ll be making use of the views as an example.

“In new builds there is no doubt that leisure will be completely integrated, and we also shouldn’t forget leisure’s role in urban regeneration – Shoreditch, Dalston and Peckham in London, plus some areas of Manchester are good examples – but for existing schemes I would say the key is not necessarily more buildings, but refreshing the space and bringing in the latest concepts to replace those which become tired.”

Of course, as retail and leisure mix, sometimes it’s retail that follows leisure. In the UK, AEG and Crosstree Real Estate have appointed Eastdil Secured to find £185m to finance a designer outlet scheme at the O2 Arena in Greenwich, London. Debt broker Eastdil has approached a number of lenders to secure the funding, which could see up to 230,000 sq ft (21,367 sq m) of retail space added to the events and leisure site.

Anschutz Entertainment Group wants to build a designer shopping centre to rival Bicester Village in Oxfordshire at London’s O2, and already has planning permission for 118 designer shops with bars and restaurants. It will be housed on the ground floor and an unused balcony on an upper level of the O2 that had previously been earmarked for a super-casino.

It’s a view also held by Kate Taylor, Associate Director at leasing specialist Davis Coffers Lyons (DCL). She points to the “casualisation” of dining and the fact that operators are trading throughout the day, not just at lunch and dinner time. “It’s tied into consumer behaviour generally,” she says. “People are eating out more and there are more day parts. For example, we’ve seen a big rise in breakfast spend.”

Taylor believes that landlords need to nurture F&B offers that differentiate, but that are appropriate to their offering. Indeed, many street food vendors may not want to become the next multi-national food chain, explains Abigail Freeman, Director of Projects & Partnerships at We Are Pop Ups, who says that there are many different reasons why F&B companies take retail space. “The short leases at Trinity Kitchen or pop-up models suit many operators because it gives them the chance to test out the menu, the pricing and the offer without risking a ten-year lease,” she says.

Taylor says that DCL anticipates more high-quality counter service and small format concepts, in part in response to more “upscale food court” environments and more all-day dining, which she believes is particularly of interest to landlords to foster activity throughout the day, and to provide a range of pit stops for customers “refuelling”.

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