



As shoppers migrate online, retailers find themselves with empty space on their hands and, as **Ben Cooper** reports, they're starting to think like developers when it comes to knowing what to do with it

Embracing the developer's mindset

When a special one-day pop-up event was organised in July at three empty shops on Moor Lane in Crosby Village, Liverpool, the landlord said it "demonstrated why these shops present such a fantastic opportunity to prospective tenants". So far so ordinary; pop-ups have become a popular way for landlords to use their redundant space for one-off marketing events or to test a new type of retail concept. But on Moor Lane, the landlord in question happened to be Sainsbury's, and the three empty units part of a joint-venture scheme run and owned by the grocer.

All change for grocers

It may seem strange for a grocer to have to think about luring prospective tenants, yet in the supermarket sector nothing is quite as it used to be. Huge stores and increasing portfolios are out and a new more competitive market has emerged in which retailers can't just expect shoppers to be loyal to their stores: they have to earn their loyalty.

With far too much space on their hands, and footfall a major concern, retailers are finding themselves with the same headache that landlords habitually have: how to maximise the space and make it a true destination. As a result they are increasingly having to think like developers to find that extra edge.



Tesco has already begun to act. Last year, it bought restaurant chain Giraffe, which it said it would roll out in and around its stores to create 'retail destinations' to attract shoppers. The acquisition followed similar investments in businesses such as Harris + Hoole coffee shops, and Euphorium Bakery.

There is no shortage of retailers using their space for experiential use beyond their core business. In November last year, Asda announced

it had teamed up with Barclays to install scaled-down branches in its stores to save shoppers the extra journey to the bank. Arcadia is undergoing a long 'restyling' process at its Oxford Street Topman store to which it has so far added a men's and women's salon called Johnny's Chop Shop and an 'Experience Area', which will run themed events throughout the year with live DJs and workshops.

Conlumino managing director Neil Saunders says these examples are part of a wider trend of more creative, flexible thinking that's set to continue. He says: "It's a game of footfall. Retailers have to think about how they can use that space more productively. And where they own their stores or are invested in them, it's also an economic decision.

With sales densities dropping they are seeing a fall in the return on their capital investment.

"If you were to create a retail business from scratch you wouldn't bring in the store configuration retailers have got now, but they can't wind the clocks back and they are stuck with what they've got."

Although this is a major problem for retailers, particularly the major grocers, it also provides ↘

them with an opportunity to adapt to changing shopping habits. Leslie Jones Architects managing director James Cons says retailers are increasingly adopting a developer's mindset to find the solutions. He says: "It's all about experience now in terms of encouraging people into your store. You have so much choice of how to shop these days. Landlords have been doing that in that they are moving away from just retail, and now the retailers are starting to grapple with that."

In the know

This, says Cons, isn't just about pragmatically filling empty space: it serves another important purpose. For the big four the excess of space is only one of a number of challenges they face; another being the inexorable rise of the discounters. Aldi and Lidl, in particular, have had a remarkable couple of years managing to woo customers with their no-frills, decent quality discount food offering.

But while it's tempting for the rest of the market to try to compete with the discounters, one of the strengths of the big four is that they can offer an experience that Aldi and Lidl simply can't replicate, and by turning supermarkets into exciting, diverse places to visit they have the opportunity to emphasise this point of difference.

"They need to think even further," Cons says. "They could be town centre providers. With all this space they could bring in different uses, such as healthcare facilities; it could work very well. They could provide a one-stop-shop for local authorities. Is Tesco going to try to be Lidl, or offer something different?"

Assisted by local agent Hitchcock Wright and Partners, Sainsbury's Moor Lane pop-up project was typical of the one-off events taking place around the country. But for a retailer to be doing this is a sign of the times. And the thinking behind the idea came straight from a landlord's

The changing face of grocery retailing



Tesco has invested in coffee shop Harris + Hoole

The big four grocers have been shedding market share to the up-and-coming discount chains, most notably Aldi and Lidl, as well as upmarket rivals such as Marks & Spencer and Waitrose. Margins and profits have taken a hit, online sales are increasing exponentially and the formula of big stores and big portfolios equalling big sales is all but redundant. Retailers, especially the big grocers, simply have too much space.

CBRE head of supermarket agency and development John Witherell says: "Tesco has

the largest exposure and it's got stores that are a bit baggy in space. In the current market people are less loyal and they are shopping around."

The optimum space for a supermarket has gone from 70,000-80,000 sq ft to 50,000-60,000 sq ft, according to Witherell, so the challenge is to manage that space more efficiently. "Shopping has changed – if you can reduce your space you can lower your rates bill. The win-win is if you can make it a better retail destination."

text book, according to Sainsbury's non-operational estates manager Danielle Rayner. "The pop-up shop event at our Moor Lane units was a great way of showcasing their potential. The units are situated in a popular area of the town centre but, while they are empty, it can be difficult for potential tenants to envisage how their business could trade successfully."

Clearly a retailer attuned to the developer way of thinking Sainsbury's is involved in a number of major mixed-use schemes around the UK, perhaps most notably a partnership with

housebuilder Barratt to deliver a £500m project comprised of 737 new homes, a new Sainsbury's store, 27,000 sq ft of local shops, restaurants and office space in Nine Elms, Greater London.

Nobody likes wasted space, whether that means empty units in a retailer-led, mixed-use scheme, or redundant space in a store. Retailers are in the pressurised position of either owing rent where they are tenants, or rates when they own their estate and in both cases they have people to answer to demanding maximum returns and productivity.

Retail Week SHOP 2014

Sainsbury's transformation of Fulham Wharf, west London from a derelict industrial area into a new vibrant riverside destination is a shining example of how retailers are taking advantage of residential, leisure and commercial opportunities to maximise their assets.

Sainsbury's head of mixed-use development Jamie Cowen will be at Retail Week's SHOP event on November 5 and 6 to give insight into how the grocer is embracing new opportunities and what is next in the pipeline.

Retail Week's SHOP 2014 is an event designed for property directors, heads of store planning and design directors to rethink

physical retail presence in new creative and strategic ways. Asking critical questions, probing the future and analysing the present, this is the event for stakeholders investing in, building, designing or operating retail spaces in the UK.

DATE November 5 and 6, 2014

VENUE Millennium Gloucester Hotel, London

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Neil Saunders, Conlumino

In many cases retailers' problems are starting to resemble those of a classic retailer landlord, and, as Saunders points out, the solutions are becoming increasingly similar. "Retailers have had to be creative with how they use space and how they make their stores compelling in the same way that developers do," he says. "It's something we're going to see more of in the future." ■