NEED TO KNOW


Hammerson owns centres including Victoria Gate in Leeds

# Hammerson calls time on out-of-town retail

The landlord's new strategy ditches retail parks for premium and flagship destinations. Matthew Chapman examines what it means for the future of shopping centres

Hammerson is jettisoning its retail parks as part of a radical new strategy based on market trends it believes will shape shopping.

The shopping centre group has left "no stone unturned" as it reviewed its best path to future success, according to Hammerson UK and Ireland managing director Mark Bourgeois.

Hammerson took on board views from shareholders and external advisers including McKinsey, which has resulted in it choosing to dispose of all its retail parks – including 15 in the UK – to focus on flagship retail destinations and premium outlets, the two types of location where it sees its future.

The plans involve shrinking space for department stores and high-street fashion by a quarter and a fifth respectively to make way for "differentiated" brands, "aspirational" fashion, small businesses, leisure, events and lifestyle spaces.

Retail Week explores some of the trends that have influenced Hammerson's decision as it set out its stall after pulling out of a planned merger with Intu and rejecting a takeover bid from Klépierre.

## Urbanisation and changing lifestyles

Hammerson's decision to focus on flagship retail destinations ("top-tier city shopping centres underpinned by strong demographics") and premium outlets ("must-visit outlets attractive to high-spending local catchments, European and global visitors") was informed by growing urbanisation.

Hammerson cited UN research that 78% of Europe's population is expected to live in cities by 2030. The company, which owns shopping centres including Birmingham's Bullring and Brent Cross in London, will develop its property around its centres to create more "mixed-use lifestyle venues". The property group holds 65 acres of land around prime city locations that it will develop into a new City Quarters concept.

"We are focusing on uses beyond just retail, including residential, commercial and leisure," explains Bourgeois. "There's no doubt we have a really valuable land bank of car parks in these urban locations, and with the rise of urban logistics and Uber, and the drop in car ownership, these car parks will evolve and change."

Hammerson's future flagship destinations will be focused on urban destinations with more than 1.5 million people in the catchment area and footfall of 18 million.

They will be 50% larger than the average centre in its existing portfolio and will have 45% more space allocated to small and medium-sized businesses (SMBs).

## Polarisation

The shift away from department stores and high-street fashion is a response to polarisation occurring in the marketplace.

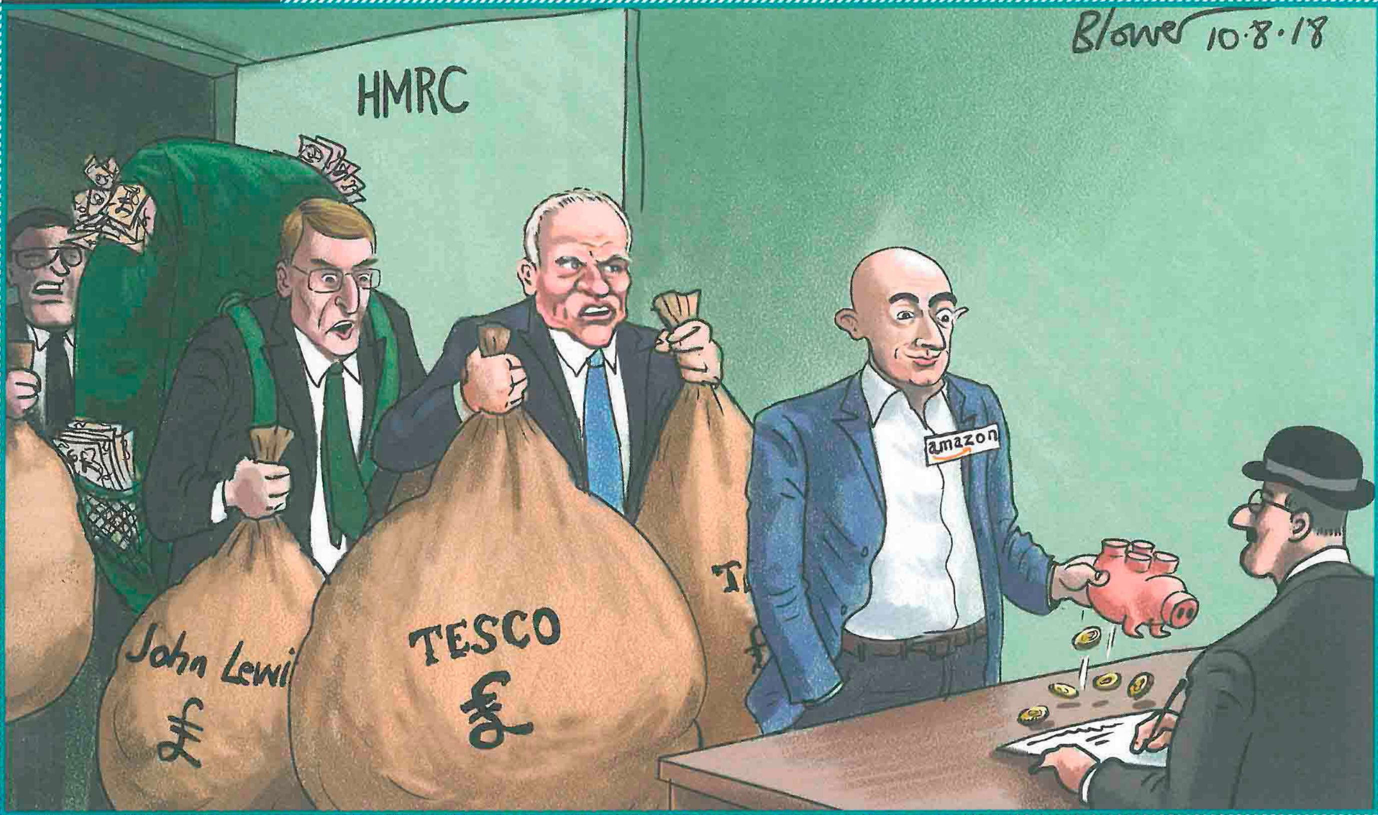
"Polarisation benefits our type of flagship destination and clearly there is an element of convenience polarisation going on as well," says Bourgeois.

"There is a well-publicised mid-tier of retail destinations in the UK that are neither experiential nor convenient and there is a significant shift of prosperity away from these locations."

Although Hammerson is centring its efforts on the premium end of the spectrum, Bourgeois argues there is still a future for the retail park because of the convenience it offers.

"It is a very functional and convenient visit," says Bourgeois. "But we think our ability to influence the performance of those parks in the way we do with flagship destinations

## Blower's cartoon




is not as great, and we decided to exit those parks. There is no doubt in areas of the department store sector that their formats and requirements and the amount of space they had in the past are changing."

Space formerly devoted to department stores will be devoted to new types of business, and demand is expected to be high.

He says: "[Department stores] are usually in great locations in these flagship destinations and we've highlighted the alternative destinations we will be pivoting towards – those more differentiated brands in both fashion and consumer, and more SMBs and leisure."

Bourgeois says Hammerson is making fewer deals with high-street fashion retailers, while others have been hit by CVAs.

"There is certainly an element of Darwinian evolution going on in retail and we all know the brands that have entered CVAs, and that is at the heart of the pivot away," says Bourgeois. "I think that will continue; there will always be CVAs and administrations."

Nevertheless, Hammerson is still signing deals with high-street fashion brands with strong propositions including Bershka, & Other Stories, Vans and Mango.

### Digitalisation

As part of a renewed focus on operational excellence, Hammerson will also devote more resources to a "sophisticated" digital offer that will complement the bricks-and-mortar element of its business

Hammerson has already dabbled in the space with a visual search 'style seeker' tool that allows users to take a picture of a piece of clothing and discover similar alternatives stocked in the mall.

New digital initiatives include an exploration of voice and frictionless payment technology. Voice will be used in car parks as a way to aid navigation and paying without having to visit a machine.

**Hammerson is making fewer deals with high-street fashion retailers**

"Frictionless payment is an interesting one we are starting to look at – the principle being that with partner retailers you can pay through that app and have your goods delivered to your car a short time afterwards at a time of your choice," says Bourgeois.

Hammerson is also introducing chatbots on its website and exploring tech-based loyalty schemes in an effort to further improve customer experience.

Alongside focusing on digital innovation, Hammerson is lobbying on business rates to ensure physical retail is playing on a level field with ecommerce giants.

"There's no doubt business rates are a significant and disproportionate burden on UK retail," says Bourgeois. "We are working with industry bodies to campaign on this for a rethink of how the whole rates system works in the UK. There is no doubt it is an unfair tax right now."

### Globalisation

Another key element of Hammerson's strategy is developing greater geographical diversification by developing non-UK retail exposure by 10%.

Alan Carter, analyst at Stifel Nicolaus, points out that only four months ago Hammerson wanted to buy Intu and therefore significantly increase its presence in the UK.

Bourgeois says: "We believed at the time the Intu acquisition would deliver long-term performance and value for shareholders. We withdrew from that deal because UK conditions deteriorated, and therefore we no longer believed it was the best course of action or value for shareholders – unlike this plan, which we believe will enhance shareholder value."

He also says global diversification is not a direct response to Brexit.

"The UK retail market is going through cyclical challenges, but I think the tilt towards a more European, non-UK focused business is a consequence of selling the retail parks in the next two to three years and selling existing UK shopping centres and further investments in high-growth areas of premium outlets," says Bourgeois. "As a consequence of that we will be looking at having 60% of our investments outside the UK."

Hammerson chiefs will hope the radical new plan will help justify it turning down the bid from Klépierre.

"This is a strategy to maximise returns and we are confident it is the right strategy and we are looking forward to exercising that," Bourgeois concludes.

If Hammerson's strategy proves a success it will go a long way to determining what the shopping centres of the future might look like. Watch this space. **RW**