A giant Leap into the future

St James, Edinburgh reflects the new multi-functional approach to development

The biggest news for Western Europe's retail sector is less about new development or UK retail administrations and more about how tech giant-backed innovation could reshape the industry, says **Ben Cooper**

AT THE beginning of August, the tech world received the news it had been waiting for: after three years of hype and anticipation, the Magic Leap augmented-reality (AR) headset had finally hit the market.

It wasn't the first of its kind and doubtless there will be more to come. But with the backing of no less than Alibaba and Google, Magic Leap is not just another gadget. It could be a giant leap down the long, intertwining roads of technology and retailing.

Picture a future retail store where shoppers can flip on a headset and watch a virtual model stroll around the shop wearing the exact outfit they are thinking of choosing. Or imagine the shopper at home, placing virtual lamps, plant pots and cushions on to a 3D virtual simulation of their own living room.

It isn't a question of whether these innovations will happen but when, says Karen Harris, managing director of intuDigital, the technology wing of the international shopping-centre owner. "Over the next few years, we're going to see key technologies that will totally disrupt the shopping-centre industry," she says. "Artificial intelligence [AI] and mixed reality [MR] will change things massively. AR headsets will bring the digital experience to the physical. There will be a race over the next three years between all the major tech platforms. You'll be able to do visual searches using AI and make instant purchases using new payment technologies."

The role of the technology giants in rewriting the rules of engage-

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ment can already be seen in the collaboration between Carrefour and Google in France, and between the French grocer and UK supermarket leader Tesco to optimise supply chains. But technological leaps often raise as many questions as they answer. And for the retail property industry, there are some profound questions to be addressed. Is the sector ready for this radical change? How can new technologies be harnessed to improve the customer experience: And how can online be embraced without making physical space redundant?

These fundamental issues are particularly apparent in the key, high internet-penetration markets of the UK, France, Germany and the Benelux region of Europe. "We have changed the way we shop," says Jerome Le Grelle, executive director of retail at CBRE France. "This is the challenge for retailers. They have to be close to their customers at any time of the day or night."

Keeping this close link with shoppers in the modern era is simultaneously remarkably easy and exceptionally complicated. But retailers are getting the hang of it: wherever you look in Europe, every year e-commerce takes a higher share of overall retail sales. However, Sian Doyle, head of UK business development at CBRE's retail advisory and transaction division, says that, while the convergence of physical retailing with e-commerce is the new big challenge, the store is still at the core of the retail business. "Retail is changing faster than it ever has," she adds. "Consumers don't really differentiate between channels; the convergence is consumer-led. But 91% of all transactions are still happening with contact with a store. And there is a direct link between online sales and physical stores. You close a store and online penetration in the surrounding area goes down."

Tesco is to collaborate with Carrefour over supply chain optimisation.

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To see how this has this panned out, you need to look to the European market with the most mature online shopping sector — the UK. Such is the scale of penetration in the UK e-commerce market that there are calls for what chancellor Philip Hammond describes as an "Amazon tax" on e-tailers.

But James Cons, managing director at retail-specialist architect Leslie Jones, says that, while e-commerce has brought its problems for the high street, especially in the weaker locations, there is still hope for bricks-and-mortar: "It's a case of trying to get a level playing field for physical over digital in the tax system. The operating costs of physical stores are so high, with rent and rates on retailers. We could sleepwalk into creating dormant towns with no character if we are not careful. But I think we are at a unique point. Amazon is moving into physical stores. They see that this is the future. The UK is more mature than many locations in mainland Europe, but they can see this is coming their way as well."

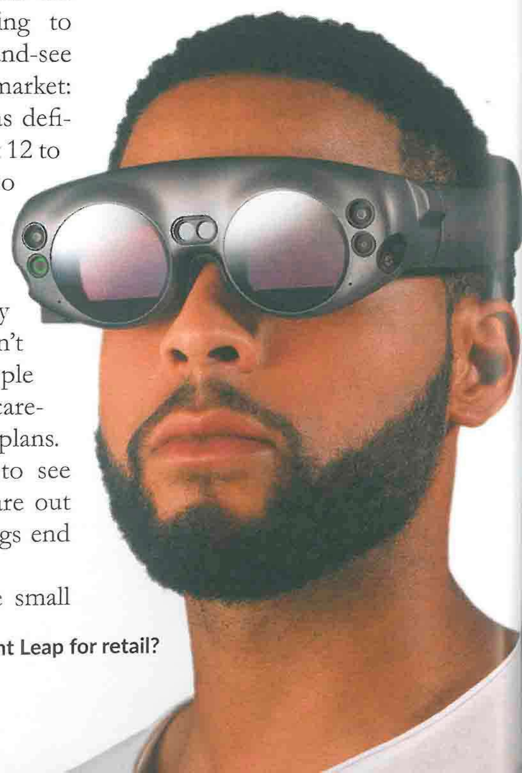
But a mature e-commerce market is by no means the only paradigm shift in the UK. There is the little matter of Brexit to deal with. Stephen Springham, partner in the research team at agency Knight Frank, says the UK's withdrawal from the EU is likely contributing to something of a wait-and-see attitude in a quiet retail market: "Cross-border activity has definitely slowed over the last 12 to 18 months. There are also retailers repositioning in the UK and looking to close doors where previously they have been very active. It's slow, but it hasn't completely dried up. People are just being a lot more careful with their expansion plans. People may be waiting to see what happens once we are out of Europe and how things end up post-Brexit."

Spingham adds: "It's the small operators that are still driving demand and looking for space. It's not the big-box operators. We're just not seeing the same demand for stores of above 3,500 sq ft [325 sq m] as there was two or three years ago."

Add this to some alarming, high-profile retail administrations — not least shopping-centre anchor brand and department store group House of Fraser in August — and the inevitable conclusion is that anyone building new space had better be sure they are getting it right. In short, they need to make their centres about more than just shopping.

As CBRE's Doyle says: "Everyone is looking at their shopping centre and thinking, how can it be more relevant? And how can it continue to be at the centre of a city? People are thinking of new ways to get people in and to create experiences."

This is precisely the attitude driving the developer of one the major schemes currently underway in Scotland. When TH Real Estate began work on the Edinburgh St James (ESJ) shopping centre in 2015, it knew it had to deliver something special in a city famous for its shopping,



A giant Leap for retail?

culture and tourism. In a £1bn partnership with APG Asset Management, the firm set about creating a space that would match the high hopes, and high esteem, of Edinburgh itself.

"We set about creating something that would be out of the top drawer of retail assets," says Martin Perry, TH Real Estate's director of development. "ESJ departs a long way from the traditional shopping-centre approach. It's a project that is truly integrated with the city. It's fully connected to the surrounding streets; it's open 24 hours a day. We are connecting it up with existing cycle routes, pedestrian routes and public transport."

But Perry isn't just talking about ESJ being physically connected to the city: the team is working to make the centre a part of what, intangibly, makes Edinburgh unique. "This is a city that has 12 festivals a year, which are a huge part of the life of the city," Perry adds. "We want to have a relationship with Edinburgh and that means being more than just a shopping centre. We are using the experience of the city to drive the experience of the shopping centre, but also creating experiences and adding to the city."

Experiential space-making has always been important in shopping-centre development. Now, however, it is a golden rule — an essential, bare-minimum requirement. In fact, the term 'shopping centre' might rapidly be approaching retirement, given that there are already schemes being developed where retail makes up a minority of the floorspace.

Recognising this shift, in June French retail property giant Immochan completed a two-year rebrand and rename — to Ceetrus — declaring it had moved

Fresh, a French concept offering 100% fresh products

on from being purely a retail property developer to a company that was thinking in terms of mixed-use schemes. And through its property investment arm, Carrefour is taking its own steps into the future of retail. As a "third-generation owner of commercial property", its property division, Carmila, is being geared directly to cater for millennial shoppers, with new offers and spaces that reach "beyond the in-mall experience", the company says.

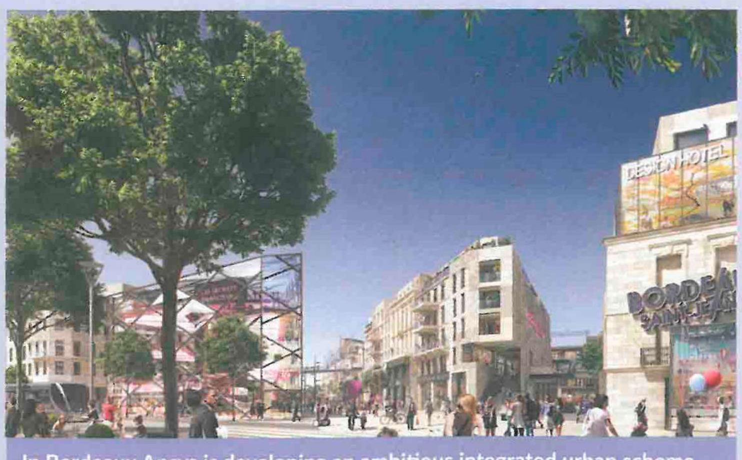
A quick look at the plans that developer Apsys is working on in Saint-Etienne reveal how the

Marques Avenue's Saint Denis development, benefitting from a refurbishment programme

French city Mulhouse has succeeded in attracting new retailers

next generation of experiential projects is unfolding. When the Steel scheme opens next year, shopping might not even be on the agenda for many of its visitors, who may be drawn instead by its 5,000 sq m indoor entertainment complex or multiple sporting facilities. Similarly, Apsys' Bordeaux Saint-Jean scheme will give life to a new urban ideal, close to the railway station of the same name: a multi-faceted quarter that will combine a range of functions — living, working, sharing, spending, shopping — and blend harmoniously into the urban fabric. The project architecture, described as being both bold and respectful, will create new spaces for living and sharing. It will also link the station and the Garonne river, extending the dock experience with numerous small squares.

Marques Avenue is celebrating its 25th anniversary under the leadership of Zakari Leriche, who was promoted to managing director in July. The group is working on a general strategy to re-enchant the customer experience via the implementation of refurbishment, new design and new services for customers. Some centres are under refurbishment: Marques Avenue Ile Saint Denis; Marques Avenue Franconville; and Marques Avenue Talange. These centres will be redesigned to enhance the customer experience and the comfort of shopping.


In Bordeaux Apsys is developing an ambitious integrated urban scheme.

James Cons,
Leslie Jones Architects:

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Marques Avenue Romans has already been extended this year and will be further extended in 2019, while the company is introducing a new service in all centres called Kid's Place. It is a free nursery place with workshops organised for kids on Saturdays so that parents can shop quietly while the kids are cared for and entertained for free.

Just as in the UK, this level of experiential design is now the norm in France. And it needs to be, says CBRE's Le Grelle, because French retail is going through its own tough times. "We are still facing big difficulties in the French market," he adds. "The textiles sector in particular is still very difficult and is suffering. We have seen insolvencies and administration, and retailers are having to restructure and adapt their activities to new trends. There are challenges for investors about how to reposition shopping centres."

Many regions and towns are working hard to reimagine their retail offer. For example, the French town of Mulhouse, close to both the Swiss and German borders, has been recognised with an award for its success at attracting new retailers, with over 440 new stores opening since 2011, more than double the number that have closed.

New formats are also being promoted. One such is Fresh, a 500 sq m local store format offering a wide range of 100% fresh products, says Christelle Madeleine, development director at Fresh. Its concept is located in the outskirts of large and medium-sized French towns, on sites between 4,000 and 6,000 sq m and with provision for 70 to 100 parking spaces. The company's range comprises five product families — fruit and vegetables, seafood, dairy, meat and poultry and cold cuts; and a delicatessen offering a broad choice of ready-to-eat products.

Faced with this combination of changing trends and economic challenges, every sector of retail property is being rethought. The designer-outlet sector, for example, has not traditionally entailed much by the way of experiential features, because its hook was simply good fashion brands at discount prices.

But Adrian Nelson, group leasing director at international outlet developer and owner McArthurGlen, says this is no longer the case. Across the company's portfolio, from its outlet in Provence in France — where it recently held an exhibition of Rodin and Maillol sculptures — to its gastronomic offering at Roermond in the Netherlands, McArthurGlen is adapting and bringing in experiences to draw in shoppers.

"Historically, the outlet industry solved the problem of leftover stock," Nelson says. "That's still an important part of our role, and never more so than in today's world of fast fashion. But we have evolved to become a valuable retail channel in luxury's multichannel world and a compelling route into luxury shopping for the younger generation, who demand a much broader and more compelling experience when they are shopping. That means we must offer an extremely distinctive experience in all aspects of shopping, from finding the most desirable product to enjoying food, witnessing spectacular entertainment and using innovative ways to deliver the most memorable day out."

Adrian Nelson, McArthurGlen: ***"The outlet industry has evolved to become a valuable retail channel in luxury's multichannel world and a compelling route into luxury shopping for the younger generation"***

ECE is to introduce new concepts and enhanced F&B in Leipzig.

It is a sign of the times that even designer outlets are having to work so hard for customers' attention. Yet another sign is the poor start to the year experienced by the powerhouse of Europe, Germany, where retail investment transactions took a dramatic and unexpected fall in the first half of 2018, to the alarm of observers both inside the country and outside. The worst-hit sector was shopping centres which, according to research from JLL, had their worst start to the year on record — a remarkable 63% year-on-year fall from the first half of 2017. And of all the retail deals in the period, only one transaction worth more than €100m succeeded in getting over the line.

"People are much more risk adverse now," says Anke Kaukers, head of shopping-centre services at JLL in Germany. "When it comes to leasing, people are less confident. The market has been difficult, but I think it's adjusting itself. Prices have found a new level. In Germany, people have different rental-growth expectations and different pricing levels. But I can see things picking up in the second half of the year."

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How this plays out over the coming months will be a test of Germany's resilience — itself a big indicator of the wider health of northern Europe. Expect a lot of the talk at this year's MAPIC to be about the health of the EU's largest economy.

In the meantime, projects continue. ECE's Promenaden shopping centre at Leipzig's central station, for example, is set to be extensively modernised, refurbished and upgraded. For this, ECE will introduce a new architectural concept that it says will offer travellers, visitors and locals a new shopping experience. The centre's three levels will be themed according to the most important shopping needs of its customers, with 70 new and refurbished shops and food service areas. Besides bringing in a large number of new concepts, many of the existing stores will be upgraded. The owner of the shopping centre, a DWS-managed fund and ECE/the Otto family, as well as the tenants will invest a total of approximately €30m in the revamp.

Also expect a lot of talk at MAPIC of retailer expansion — and leasing activity. Things might be tricky in Germany, but JLL's Kaukers says there is still plenty of acquisition going on, not least by some of Europe's giant retail names, such as Inditex and H&M. As Knight Frank's Springham observes: "There are always retailers at MAPIC who are particularly acquisitive. It will be interesting to see what this year brings."

There are those that remain confident of physical store expansion. "To open a new country every year" is the message that KiK CEO Patrick Zahn wants to get across with regard to retailer KiK's expansionist activities. Founded in 1994, fashion retailer KiK is headquartered in the German city of Boenen (Northrhine-Westfalia) and with a record revenue of more than €2 billion in 2017, KiK ranks fifth among German fashion companies.

To date, KiK has 3,634 stores in 10 European countries: Germany, Austria, Czech Republic, Slovenia, Hungary, Slovak Republic, Croatia, Poland, The Netherlands, and Italy, of which 2,579 stores are in Germany.

Expansion across Europe remains a top priority for KiK, which aims to open 200 stores every year. This autumn, KiK will open its first stores in Ro-

German fashion store KiK, a brand with expansion plans across Europe

mania and in 2019 and 2020, KiK will also enter the French and Bulgarian market with approximately 10 new stores each initially. Italy, which KiK entered in 2017, remains an important country for future expansion activities, with plans to open 25 new stores each year.

Continuing to service store expansions and celebrating its 150th year, umdasch The Store Makers is one of the leading shopfitting concerns in Europe and is a new exhibitor to MAPIC. Austrian-based, with 20 branch locations in Europe and the Middle East, its four divisions — Lifestyle Retail, Food Retail, Premium Retail and Digital Retail — realise over 7,000 shopfitting and 100 general contracting projects every year. The company combines traditional shopfitting with digital components and customers include luxury department stores Harrods and Selfridges, flagship stores for Ferrari and LK Bennett, as well as rollouts for Rewe, Spar, Audi, Khaadi and many more across 70 countries.

Another brand that has captured the attention of the international market is Dutch fashion label Rituals, which has made it very clear that it is on the acquisition trail, with 110 new stores due worldwide by the end of the year and a similar number in 2019. In a welcome sign of confidence the company has pinpointed France and Germany as key target markets. It may not be a coincidence that one of the most rapidly expanding retail brands in Europe comes from the Netherlands. Of all the markets in Europe, the Netherlands is demonstrably in good shape, with the latest CBRE Real Estate Market Outlook showing consumer confidence at a 17-year high, retail sales for the year estimated at 4% higher than in 2017 and a healthy level of acquisition activity by both domestic and international retailers.

Antwerp: Redevco is one of those investing in the Belgian market.

But this is caveated by a warning. The report says: "Despite the positive signals from the prime high streets in the large cities, a conservative perception persists in respect of the secondary segments of the retail real estate market." In neighbourhood shopping centres, in particular, CBRE says there is a "striking" vacancy growth.

In Belgium, too, there is something of a mixed picture. The rapid growth in retail sales of last year has not been repeated so far in 2018 — and yet consumer confidence is higher than at any point during the past 10 years. On Belgian high streets and in the country's shopping centres, vacancy rates are still high, at around 10%. But the development pipeline remains strong, with some major new projects, including Redevco's The Leaf retail park in Ternat, due for completion in the second half of this year, and further projects set for completion early in 2019.

Indeed, the whole of Europe seems rich with complexities in 2018. A time of great change — of AR and digital innovations both front of house and behind the scenes, and whole new experiences and modes of thinking in shopping-centre design — it is also an era of uncertainty, in which seemingly any retail chain, even the anchors, could soon be in the administrators' hands.

With this in mind, and the tech race well under way, retailers and retail property owners should prepare for more change before things are likely to settle.

London's iconic Harrods is revamping its food halls with umdasch.

CONFERENCES & EVENTS AT MAPIC

DESTINATION: UNITED KINGDOM
Thursday 15 November - 10.00-11.00
Conference Room 2 - Palais -1

DESTINATION: FRANCE
Thursday 15 November - 11.00-13.00
Conference Room 2 - Palais -1

DESTINATION: GERMANY
Thursday 15 November - 15.30-17.30
Verrière Grand Auditorium - Palais 1

MAPIC OUTLET SUMMIT (By invitation only)
Tuesday 13 November - 14.00-18.00

TRANSFORMING REALITY: PHYSICAL IN THE AGE OF DIGITAL - Official Keynote
Wednesday 14 November - 12:00-13:00
Room 1 - Palais 1