



RESEARCH-LED PROPERTY DEVELOPMENT

White Paper

May 2007

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The Issues

The development of new Shopping Centres or the enhancement of existing Centres is a costly exercise that does not always provide the developer with the maximum return on investment. The temptation is to use historical data as a basis for decisions that affect the future, but the problem with this approach is that it has no regard to changing population, unmet needs of shoppers within the catchment or external influences such as the potential gentrification of surrounding areas.

Background

The idea of covered shopping malls originated in USA and then was brought to the UK. The first UK pedestrianised shopping mall opened in Jarrow in 1961. A total of 22 Arndale Centres were built in the UK; the best known of these is The Manchester Arndale, which despite suffering extensive damage in the IRA bombing of 1996 has been substantially redeveloped and today is trading successfully.

The Wandsworth Arndale opened in 1971 to become at the time the largest indoor shopping space in Europe. This white paper discusses the transformation that occurred over a 4 year period from 1999 to 2003, taking the Centre's prime Zone A space from £40 to more than £120 in that period, thus demonstrating the outstanding power of retail research to inform and generate confidence in both the development team and retail tenants

Low Price versus Aspirational Offering

The appeal of historical data as a foundation for decision making was overwhelming in the case of the Wandsworth Arndale, where a reconfigured retailing offering was planned that would provide medium/low priced merchandise plus the introduction of an 18 screen multiplex cinema and a health club.

The brief reflected what was immediately apparent to any visitor to The Wandsworth Arndale in 1999. The retail offering had been weakened by the closure of Sainsbury, Woolworths, Tesco and the food court, and the remaining outlets targeted primarily the residents of the Local Authority tower blocks above the Centre. Housekeeping and security were good, but the mix of merchandise available and the long-term lack of investment in the fabric and facilities of the Centre made it unappealing to aspirational shoppers. It was therefore unsurprising that the client thought in terms of aiming the Centre's retail offering at the value-driven segment of the existing shoppers.

The opportunities for the cinema and health club were self-evident. Even today, no multiplex has been provided and none is planned within the vicinity of Wandsworth, with the nearest being Fulham Broadway. Similarly, a health club, which could be accessed separately from the shopping centre, would have faced relatively little local competition. Overall, this option seemed tempting but it took account of only a few of the influencing factors.

Research Requirement

The retail research demonstrated that even in its run-down condition of 1999, The Wandsworth Arndale was taking only a small percentage of a large and affluent catchment's expenditure. The adjacent Sainsbury was rated amongst the top 10 in the country and none of the major competing venues for non-food shopping – such as central London, Croydon and Kingston – were particularly convenient for Wandsworth catchment residents. Assessing the situation against this backdrop it was undeniable that a very real opportunity existed to substantially increase market share.

Analysis

When conducting analysis to evaluate market opportunities, it is critical to select the most appropriate model and utilise tools such as the National Survey of Local Shopping Patterns. FSP uses sophisticated research techniques that identify catchment areas through postcode information and draw down data that reflects customer behaviour and seasonal influences. The FSP analysis of the Wandsworth Arndale's resident catchment population demonstrated that significant changes had taken place over the previous 10 to 15 years. The population had grown at almost 3 times the national rate; the increased demand for accessible executive housing for workers in central London had led to a gentrification of the area; the number of children had increased by 26%, whilst the number over retirement age had declined by 15%.

Options

The low risk, low investment option was to develop a tenant mix strategy as originally conceived to appeal to the less prosperous shoppers. Although just 27% of the total catchment population, this group was locally well represented. FSP's projections of retailer turnover and the consequent sustainable rents demonstrated that this would be a viable development, if a 'safe' choice.

The much bolder option, involving more risk, more investment, but higher return based on a higher level of projected rent affordability, would be to re-position the Centre's offering to target the gentrified 65% within the resident catchment population. This option would involve a complete redesign of the development to incorporate unit sizes appropriate for the revised tenant mix.

Historically, location has determined who shopped where and the mix of shops has always reflected the range of local demand, but in today's highly mobile society choices are made on factors other than proximity to home. Without the need to shop locally affluent shoppers can go where they choose. With this in mind The Wandsworth Arndale would need to present a compelling retail offer if it was to attract shoppers from amongst the gentrified population of its catchment.

Positioning

Retailers create the retail offer within any shopping centre; before taking space each need to be persuaded of the commercial viability of the trading location. To successfully re-position the Centre from the 'low price' Wandsworth Arndale to the renamed 'high value' Southside, it was therefore critical to persuade retailers targeting aspirational shoppers that Wandsworth was an opportunity for them, with store profitability assured.

It was clear that any retailer targeting aspirational shoppers would turn down the opportunity to trade in Wandsworth based on the traditional 'brick-kicking', 'air-sniffing' approach to store

location. Neither the environment of the Centre nor the profile of existing shoppers would lead them to see it as a profitable opportunity. FSP was tasked to persuade them to look at the catchment data, and explore the potential benefits that could be gained by drawing in the newly gentrified catchment population.

Outcomes

Retail operations managers are by nature highly pragmatic and often reluctant to trust theoretical analysis. But in this case, FSP was able to use catchment area data from post code information collected from a sample of shoppers in The Wandsworth Arndale and analyse the penetration of that catchment by counting the number of shoppers using the Centre over a full trading week. Using this robust foundation, the market share was estimated through auditing sales of existing tenants. Initially, response to the repositioning strategy was critical, but the powerful retail research eventually proved too persuasive to ignore, and as a result the developer was faced with the enviable task of having to choose between Waitrose or Marks and Spencer as Southside's anchor store.

External factors should not be overlooked as they will have direct impact on the development itself. In this instance, such factors worked in favour of the re-positioning strategy:

Wandsworth Council, having been supportive throughout the development process, decided to spend £35 million refurbishing the tower blocks above the Centre, and the local Sainsbury – sited adjacent to the Centre – extended its store.

The presence of the first few retailers is always an influencing factor in the decision making process of other retailers and space within Southside was soon fully allocated.

Statistics clearly show the success of this project, with retail performance at Southside having consistently exceeded planned growth since the re-positioning exercise took place.

Retail Research in an Ongoing Capacity

With the Centre refurbished, new retailers trading successfully and the re-positioning complete, the role of retail research within the management process at Southside has changed from an essential element in tenant recruitment to a strategic evaluation that assists in the enhancement of the tenant mix. The role of research in the development of shopping centres, as in the development of retailing itself, is to facilitate informed decisions and analyse opportunities or threats. FSP remains closely involved with the owners at Southside, working to reveal opportunities, evaluate competition and augment the existing offering to provide increased returns to the Centre's management process, decided to spend £35 million refurbishing the tower blocks above the Centre, and the local Sainsbury – sited adjacent to the Centre – extended its store.

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