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PHYSICAL RETAIL IS REGAINING ITS PURPOSE

Optimism is back on the agenda for bricks-and-mortar retailers, but the places where retail happens are changing

Funan in Singapore is a city centre neighbourhood under LED lighting. This former technology mall is now a bustling mixed-use development with six floors of office space, serviced residences and retail. Visitors can enjoy a cycle path on the ground floor, or make their way to the top floor to take a stroll in the urban garden and sample some of its produce at the attached restaurant.

Nuveen's redevelopment of Edinburgh's St James Quarter takes a different tack. It's about repositioning, not replacing, the city's retail offer – making the shopping environment more relevant and engaging. The mixed-use space, which incorporates hotel, residential, leisure and offices, also boasts a large number of sustainability/ESG initiatives.

While Funan and St James Quarter may seem different, they send similar messages about the future of city centre retail spaces. They're ▶

◀ breathing new life into areas and structures once largely abandoned, repositioning them as vibrant centres of their communities. In both places, retail and leisure, while still being front and centre, are part of a much broader offer.

Physical retail is changing with the times

Funan and St James Quarter demonstrate that bricks-and-mortar retail can evolve beyond its traditional limits. The pandemic-fuelled rise of e-commerce threw down a clear challenge to bricks-and-mortar retail – and it is responding.

In fact, there are signs that physical retail is regaining its purpose. It isn't happening everywhere, but in many markets, brands are moving back into core retail locations and vacancy rates are falling. At the luxury end, some are even pushing their physical retail presences into new and novel areas.

Sam Foyle, Director and Co-Head of Prime Global Retail at Savills, says many brands are expanding their physical retail presence. “Globally, brands never left their prime locations and some have used recent rent reductions as opportunities to expand into other high-end or tourist-rich areas, or move from great shopping streets to iconic ones. Others have expanded into affluent suburbs.”

It is impossible to overstate the catalysing effect of the pandemic on all of this. During lockdowns, people who already shopped online did more of it. People who had never shopped online started doing it. E-commerce penetration soared, raising fears that bricks-and-mortar shopping would never truly recover. But recently, that acceleration has eased. Worldwide e-commerce penetration increased by 29% in 2020 but by just 5% in 2022.

Electronic marketplaces are farther ahead than they might have been without the pandemic, but they are far from all-conquering. People are returning to shops.

Pure-play e-commerce operations, facing an array of operational cost increases on top of expensive returns policies, are seeing their already squeezed margins hit. Genuine omnichannel retailers – with both online and in-store presences – are faring significantly better.

After Covid-19 lockdowns, consumers are looking for connection and community, feeling the lure of communal

spaces. At the same time, the ease of e-commerce has given customers expectations of convenience and an “on demand” mindset. Retail locations that meet all of these disparate requirements are likely to prove most resilient in the long run.

Going local

It's been widely reported that the local suburban high street was given a much-needed shot in the arm by the pandemic's forced mass experiment in home working. This was partly down to convenience and amenity – people working from home were unable or unlikely to travel into the city centre for a quick errand.

At the same time, the pandemic amplified the celebration of local and independent retailers that had been emerging for some time. Covid-19 highlighted the importance of a great local coffee shop and bookstore. Local pride became a driving force behind suburban renewal. People re-examined where they lived and what their area offered, and found places to meet, socialise and shop.

This attitude hasn't gone away. Many office workers have now added one or two work-from-home days to their pre-pandemic schedules. The money they spent in city centres hasn't been lost. It's most likely been deflected to local shops and cafés.

The caveat is that this hasn't happened everywhere. The trend is much more evident in affluent areas that house better-paid office-based professionals and boast independent retail presences. Nevertheless, it has happened, and it is helping to shape the urban landscape.

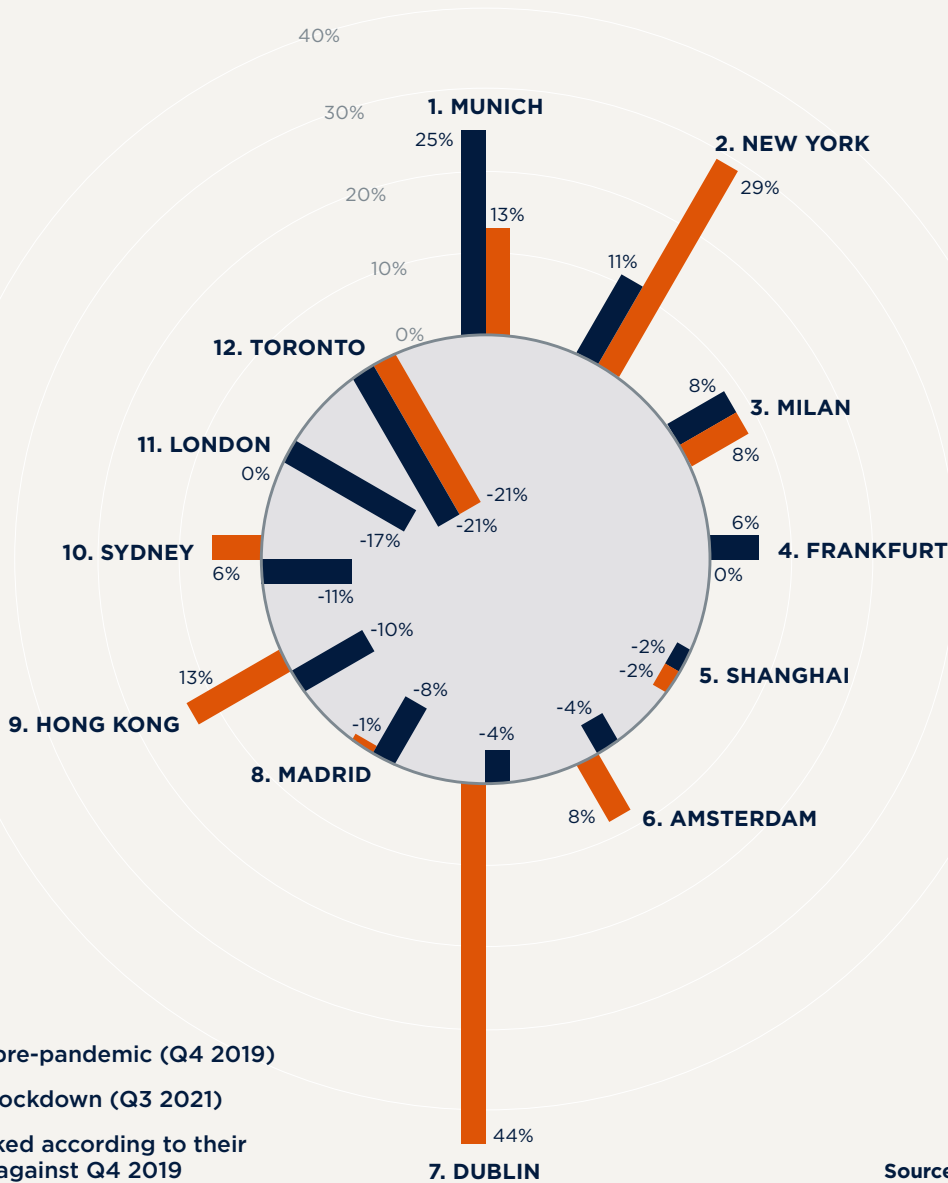
The case for cities

So what of those city centres? It's true that many central business districts have become quieter at certain times of the week and hybrid working regimes have had impacts on the stores that once serviced busy commuters and lunch-break browsers.

If 25 per cent of pre-pandemic spending in city centres came from workers who now spend one or two weekdays at home, it's likely that between 5 and 10 per cent of that expenditure has been redirected to local high streets.

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PRIME LUXURY RETAIL RENTS: CURRENT V PRE- AND MID-PANDEMIC



The picture is complex and the green shoots of retail recovery are apparent in city centres, too. Vacancies in core retail streets are falling. Brands have taken advantage of rent corrections during the pandemic to move back into high-footfall locations. Affordability is allowing retailers to move up the footfall ladder, from secondary into primary pitches and from tertiary into secondary. There is a flight to prime.

Prime luxury retail rents are still below pre-pandemic levels in a number of premier high streets across the world – down at least 10% or more on 2019 levels in Toronto, London, Sydney

and Hong Kong. In the past two years, however, prime luxury retail rents have grown by an average of 7% (Q1 2023 data).

Cost is certainly a factor, but it isn't the only one. These retailers obviously still see huge value in city centre locations, even with reduced weekday footfall and, in many cases, their own thriving e-commerce offers. Why might that be?

Changing city centres

There are a number of drivers. Consumers want novelty and amenity in one place. By being home to independent operators ▶

RETAIL SPACE AS PART OF MIXED-USE ENVIRONMENTS IS INCREASINGLY POPULAR, WHETHER PLACES ARE REPURPOSED OR BUILT FROM SCRATCH. CITIES ARE GRADUALLY FIGURING OUT WHAT WORKS BEST FOR THEM

◀ and big name brands, city centres provide exactly that. Consumers can visit a global fashion retailer and an independent local restaurant in the same trip.

At the same time, some are willing to travel much further afield for unique experiences. Tourist spend is a key driver of prime physical retail and may drive expansion as the world continues to open up after Covid-19. “One of the key features of regional retail markets like Hong Kong is tourism, especially visitors from the Chinese mainland,” says Simon Smith, Regional Head of Research at Savills Asia Pacific. “In some markets tourists can account for a significant share of physical retail spend – almost 80 per cent in the case of pre-pandemic Hong Kong.”

Perhaps somewhat counter-intuitively, online retailers are increasingly taking up prime retail pitches in major cities. This is the lure of community in action. E-commerce brands have been using social media to build online communities for years. Now, they’re bringing brand engagement and a sense of togetherness to the real world by opening stores.

Amazon, the king of electronic shopping, now operates nearly 100 retail locations and has plans to expand. Alibaba, its Chinese equivalent, also runs hundreds of physical stores.

German online fashion and beauty brand Zalando sells discounted and overstocked items through a network of bricks-and-mortar retail outlets. In 2021, it opened a flagship location in Berlin, which offers a personalised shopping experience with in-store stylists and digital features.

In some cases, these spaces may be showrooms and community hubs, complete with cafés and event halls, as much as profit centres. They’re places for people to meet, mingle – and engage with the brand – as much as to shop. It’s all about extending brand visibility.

This is especially true of “athleisure” brands like Fabletics, Under Armour and LuluLemon Athletica. LuluLemon’s experiential store in Chicago features fitness studios and a

“fuel bar”. High-end retailers are using physical locations to reinforce their appeal to a community that may actually buy the merchandise online.

Finding new purpose

These are examples of retail reinventing itself to suit changing consumer trends. While many of us are spending less time in city centres, we may be spending more money when we do travel in.

Trips into the city centre are becoming diverse and multifaceted experiences. Consumers might go to shop, eat and catch a film. They might go for a doctor’s appointment followed by an hour at the gym, or combine click-and-collect shopping with an art gallery visit.

All of this demands the repositioning or repurposing of retail. Away from the most prime locations, there is often an oversupply of space. Some retailers are rationalising their store networks, focusing on locations with higher footfall and visibility that can boost both online and offline sales. Secondary shopping malls and traditional department stores are suffering as a result.

At the same time, consumers value convenience and mixed-use spaces, which give them multiple reasons to make a single trip into town. The mixed-use concept offers an obvious future for physical retail. It’s why Funan has been retrofitted as a mall that responds to a range of requirements. It’s why the St James Quarter has been designed as a place to stay, dine and play as well as shop.

A captive audience

Mixed-use is an increasingly popular template, whether places are repurposed or built from scratch. California, where malls proliferated in car-centric suburbs, is ahead of the curve. Huntington Beach, an ageing 1960s-vintage indoor mall, has been reenvisioned as Bella Terra, an open-air town centre with

Tuscan-inspired architecture and tenants such as upscale grocer Whole Foods. A 300-unit residential complex is part of the plan.

Elsewhere, retail has been combined with hotels, university campuses and hospitals. In fact, healthcare is a major driver of the mixed-use trend. Clinics, holistic wellness centres and gyms attract visitors to nearby health food stores and athleisure brands.

This is happening in old out-of-town malls and in city centres, where – away from the prime shopping streets (where retail is actually outbidding other uses) – traditional shopping, leisure and cultural zones are merging into mixed-use neighbourhoods, offering convenience, community and experience in a post-Covid-19 world.

Challenges remain

While many of the larger schemes have been master-planned with great care, there are also smaller piecemeal developments. There's no grand design at work here – just cities gradually figuring out what works best for them.

Of course, daunting challenges remain. In many markets – the US is a prime example and Europe is following suit – there is too much retail space for current demand. Some of it isn't suitable for mixed-use repurposing. Turning a windowless old concrete-and-asphalt mall into a diverse and pleasant neighbourhood centre isn't easy – and it certainly isn't cheap.

Yet “retail with purpose” chimes with the sentiment of the times. Post-Covid-19, we value community and connection and have come to expect convenience. After lockdowns, we want experiences to savour. That's a massive boost for local retailers and repurposed out-of-town malls, but it works for city centres too.

Many of us are attracted to elements of the “15-minute city”, where services and amenities lie within a short walk from where we live or work, whether we recognise the term or not. If they can offer multiple reasons to visit within easy reach of one another, mixed-use city centre neighbourhoods are clear ways forward for physical retail.

Cities can help themselves in this regard by offering rent reductions to small independent retailers, improving infrastructure, pedestrianising streets and promoting events and festivals.

Retail is rediscovering its purpose. The places where retail happens may be changing, but stores continue to find their places in a rapidly evolving consumer landscape. ■

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Physical and digital retail are like complementary instruments in an

orchestra that must play together: both are essential, otherwise the customer will only hear half a song, but they must be in synergy, so the song is harmonious.

While an online presence showcases products and conveys our principles and values, even the best digital experience is very transactional and price-led. The store, meanwhile, delivers intangible value, particularly at the luxury end of the market, fully displaying our craftsmanship and maximising the personal experience to build one-to-one relationships between clients and the Canali brand. For an independent name, the boutique is essential in raising our profile and placing us quite literally alongside bigger luxury brands in the minds of consumers. Competition for prime retail space in the traditional premier shopping malls and streets remains extremely fierce, as they continue to be destinations for discerning customers. We focus on the store providing a bespoke experience in an oasis of private space, beyond the busy outside world.

