Open mind
Greater value

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Sonae

CASE STUDY

Creating value and meeting great expectations through refurbishments

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Case Study | Executive Summary

CREATING VALUE AND MEETING GREAT EXPECTATIONS THROUGH REFURBISHMENTS

Highlights

- Retail is changing, and shopping centres owners must adapt to visitors and tenants' expectations.
- With limited new development opportunities, the refurbishment of existing assets offers significant value creation potential for investors.
- Sonae Sierra's professional services teams deliver effective turnkey refurbishment solutions raising tenant revenues and Gross Asset Value (GAV)

Solution

Sonae Sierra has developed a solution to help clients update existing assets incorporating:

- An integrated approach leveraging the experience of Sonae Sierra's Architecture & Engineering, Investment and Property Management teams
- Bespoke leasing strategies to balance tenant needs and visitors' preferences
- Exceptional project management to ensure the centre remains open during the works while minimising the impact on tenants and on visitors

Key Numbers

+93%
Total increase in tenant sales

+155%
Increase in rental income

+41%
Total traffic increase

4,8 out of 5
Average tenant satisfaction during refurbishment processes

+800
Total retail units transformed

ÁrrabidaShopping (PT)
CascaiShopping (PT
Centro Colombo (PT)
Valle Real (SP)

Architecture and Engineering

Property Management

Investment Management

Abstract

Retail is changing, and shopping centre owners must adapt to a brave new world of evolving visitor expectations to survive and thrive. As online sales continue to rise, consumer demand is inexorably shifting from a focus on goods to experiences. Market research suggests that 78% of Millennials would rather spend money on an experience or event than buy an object. Capitalising on these trends is now critical to the success of shopping centre assets, impacting revenues for owners, investors and tenants.

Refurbishments have become the stand-out way to add value to a property in this universe of evolving tastes and crowded catchment areas. These projects are especially effective when executed with minimal impact on current operations during works, and can have a transformative effect on footfall, rents and sales afterwards.

With solutions already implemented across Europe, North Africa and South America, Sonae Sierra's multidisciplinary teams have created a blueprint for effectively refurbishing shopping centres. Bringing over 30 years of industry experience, our professionals include experts in the field of Market Intelligence, Licensing and Urban Planning, Architecture, Engineering, Investment Management, Leasing, Marketing, Property Management and Sustainability.

Introduction

Sonae Sierra know-how, covering the entire lifecycle of an asset, dramatically transforms centres of all types and sizes through refurbishment, to deliver superior destinations while ensuring value creation.

Our experienced teams understand the search for innovation, while learning from the success of past and present transformations. We have been recognised across the industry for interpreting trends and spearheading a movement that has defined some of the industry's most iconic retail destinations. At the same time, assiduous research, local teams and bespoke action plans mean that each and every centre refurbishment is different.

Recognising the delicate balance between the need to execute changes and the impact of a refurbishment on the day-to-day running of a centre, we have developed insightful solutions to make sure shopping centres continue to serve the needs of customers and tenants throughout the necessary works.

At the same time, our transformational programmes tackle the issues of changing tastes, experiential challenges, and crowded catchment areas to forge market-leading outcomes.

Background

Our approach to refurbishing an asset goes far beyond the physical space and its immediate aesthetics. While refreshing interiors or modernising the architecture are key elements in the process, we believe that true transformation comes from rethinking the entire role of an asset in its urban context.

Location, transport infrastructure, accessibility, visitor expectations and competition are all key variables. On top of this, the industry’s ongoing transformation means that role of a shopping centre in its urban catchment is changing, influenced by the service-led and experiential trend.

Just as successful anchor tenant types are in flux, space requirements continue to shift in an omnichannel universe.

The importance of food and beverage (F&B) outlets and leisure providers is in significant evolution. Furthermore, centre layouts and ancillary services, such as parking, are being increasingly influenced by technology and click-and-collect dynamics.

Ultimately, a refurbishment programme can only be considered successful if it creates a commercially viable solution that stands out in a competitive field. Even with a clear vision for what needs to be done, it is crucial to bring together the right market know-how and skills in licensing and urban planning, architecture, sustainability, engineering, leasing and property management to deliver results.

Challenge

An outstanding characteristic of Sonae Sierra's approach is that it never closes a centre while a refurbishment is taking place.

However, refurbishments will inevitably have some impact on a centre's operation; by their very nature, construction works are disruptive, they require the relocation of tenants and different parts of the building must be sealed off temporarily.

At the same time, the necessary works must be conducted so as to maintain the same high-quality experience that visitors expect, as well as allowing existing tenants to continue their activity without affecting their performance.

As with any project of a significant size and complexity, the expectations and often competing needs of multiple stakeholders must be skilfully managed to ensure it is delivered on time and to budget.

Minimising these impacts requires meticulous project management and skilful communications to keep tenants and visitors informed and coordinate the activities of the many service providers.

At the forefront of Sonae Sierra's approach is its overarching objective to minimise any potential negative impact on the centre's operational performance. To achieve this, Sonae Sierra operates a clear and precise communication strategy with visitors and retailers, as well as the close coordination of architecture & engineering teams.

Underpinning this is the company's relentless focus on ensuring a safe environment for all building users and delivering the same high standards of customer safety and comfort in line with Sonae Sierra's rigorous property management standards.

A second challenge is identifying a leasing strategy that finds the right balance between international, national and local retailers to create a compelling tenant mix while offering visitors a familiar, yet novel experience.

A first step is identifying the right brands that will improve the tenant mix, as well understanding what changes need to be made to layout to accommodate the needs of existing tenants. This information provides insights to the final design and what tenant rotations are necessary to achieve the desired objectives.

BEFORE

AFTER

Solution

VALLE REAL

Valle Real, inaugurated in 1994 in Santander, Spain and expanded in 1999, showed signs of becoming dated some 15 years after opening. Its typical distribution, with retail on the ground floor and leisure on the first floor, including a cinema and bowling, proved a drag on rents

While the shopping centre generally traded well, the old cinema format and other under-performing leisure anchors started to negatively affect the first floor’s dynamics. Between 2005 and 2009, fixed rents rose 10%, while falling some -37% in the upper floor.

An action plan was devised, to execute a change of use on the first floor, replacing leisure with retail. The cinemas and bowling alley were demolished, together with adjacent areas, alongside a mall refurbishment and façade improvement.

The subsequent letting efforts attracted international brands, resulting in the arrival of New Yorker, C&A and Los Telares in 2010; Jack & Jones, Decimas and Mayoral in 2011; and the introduction of Primark in 2012.

Repositioned with seven fashion units and eight restaurants, transforming the first floor became an opportunity to improve the shopping centre overall, increasing its catchment area and footfall. The diversified fashion and retail offer increased the demand for space, placing upward pressure on future rents. **Throughout the refurbishment process, tenant satisfaction was maintained, while the contractual rent in the affected area rose 31% as a result of the reconfiguration.** The entry of a key tenant like Primark proved a new breakthrough for the area, contributing to a buzz that positions the centre for potential expansion in the future.

BEFORE AFTER

Solution

CENTRO COLOMBO

The multi-award-winning Centro Colombo, which opened in September 1997, was an extraordinary hit with 313 million visits over its first ten years, cementing its fame as the largest shopping centre in the Iberian Peninsula (119,738 m2 GLA). Boasting 413 stores over three floors serving a catchment of some 2.6 million, it also has the largest covered car park in Europe. Significant growth in sales and rent and comfortable effort rates were all registered in its first decade. Despite maintaining its reputation as the shopping centre of reference in the Greater Lisbon area, after ten years, it had lost its novelty image, had little dynamism and innovation, and was losing out in comparison with higher quality competition.

Following a qualitative study, in 2008 a refurbishment was planned as a defensive move to halt the deterioration of the centre after ten years of extensive usage. With the projected opening of a large scheme within its primary catchment area, there was a need to act. The subsequent works ensured that the centre could operate as usual, while maintaining visitor comfort and safety. Meanwhile, the refurbishment specifically targeted a drastic overhaul of the Food Court, changing lights, colours and signage, renovating seating areas WCs and elevators, as well as introducing high-tech screens in public areas and renewing the parking areas. A former outside karting area was converted into an open-space for restaurants and services.

The result was significant resilience in a time of instability for the wider Portuguese economy, with total rents increasing 15.5% 2007-2018. The works reversed a user shift, promoting an upper middle-class visitor profile. Centro Colombo resulted the dominant shopping centre in its catchment area, with the highest penetration rate (80%), proving the most visited shopping centre (19%) and most shopped (21%). Furthermore, the addition of two office towers in 2009 and 2010 added 5,000 adjacent workers.

A further office tower, due for delivery in a couple of years, will add 2,500 more workers, and enjoy a direct connection to level 3 and the new Food Court. The recent expansion of Hospital da Luz is also set to add 700 new workers to the existing 1,200, benefitting from a direct parking connection with Centro Colombo.

BEFORE

AFTER

Solution

ÁRRABIDASHOPPING

Inaugurated in 1996, ArrábidaShopping was acquired by Sonae Sierra in 2001. Located in an area with high shopping centre density, three rival schemes opened in 2005, 2006 and 2008.

ArrábidaShopping's unique selling proposition remained the biggest cinema in the country, with 20 screens and 4,000 seats. The centre's challenges included its old-fashioned, dark design and a lack of signage in the mall and parking areas. Its escalators were wrongly positioned, there was no Food Court, and its hypermarket was distributed over two floors.

The refurbishment and expansion programme was carried out over three phases, starting in August 2006 and completing in March 2008. Objectives included introducing a more modern, young-looking ambiance, opening a Food Court, creating new sitting areas, and effectively integrating the new expansion. A second-floor Food Court and bowling alley were created in the first stage, with the mall refurbishment happening in the second, and the hypermarket being concentrated in singe floor in the third. The retail units and the adjacent hospital were also expanded in the final stage.

The expanded shopping centre created a dominant leisure destination, thanks to the brand-new Food Court with an improved Food and Beverage (F&B) mix, a new bowling anchor and open esplanade. **Net annual rent increased 8.5% in the first phase, with 36% of visitors increasing meal frequency.**

In the second phase, the refurbished mall was distinguished by greater comfort, new finishes and colours, and better signage. Brands such as Massimo Dutti, Springfield, Esprit, Lefties, Adidas and Desigual refreshed the tenant mix, while the problem of the multi-level hypermarket was resolved by disposing a significant area to a hospital operator, with an entrance directly to the centre. Another part was converted to retail. All of this was executed while keeping the centre operational, with tenant and customer satisfaction increasing during the works.

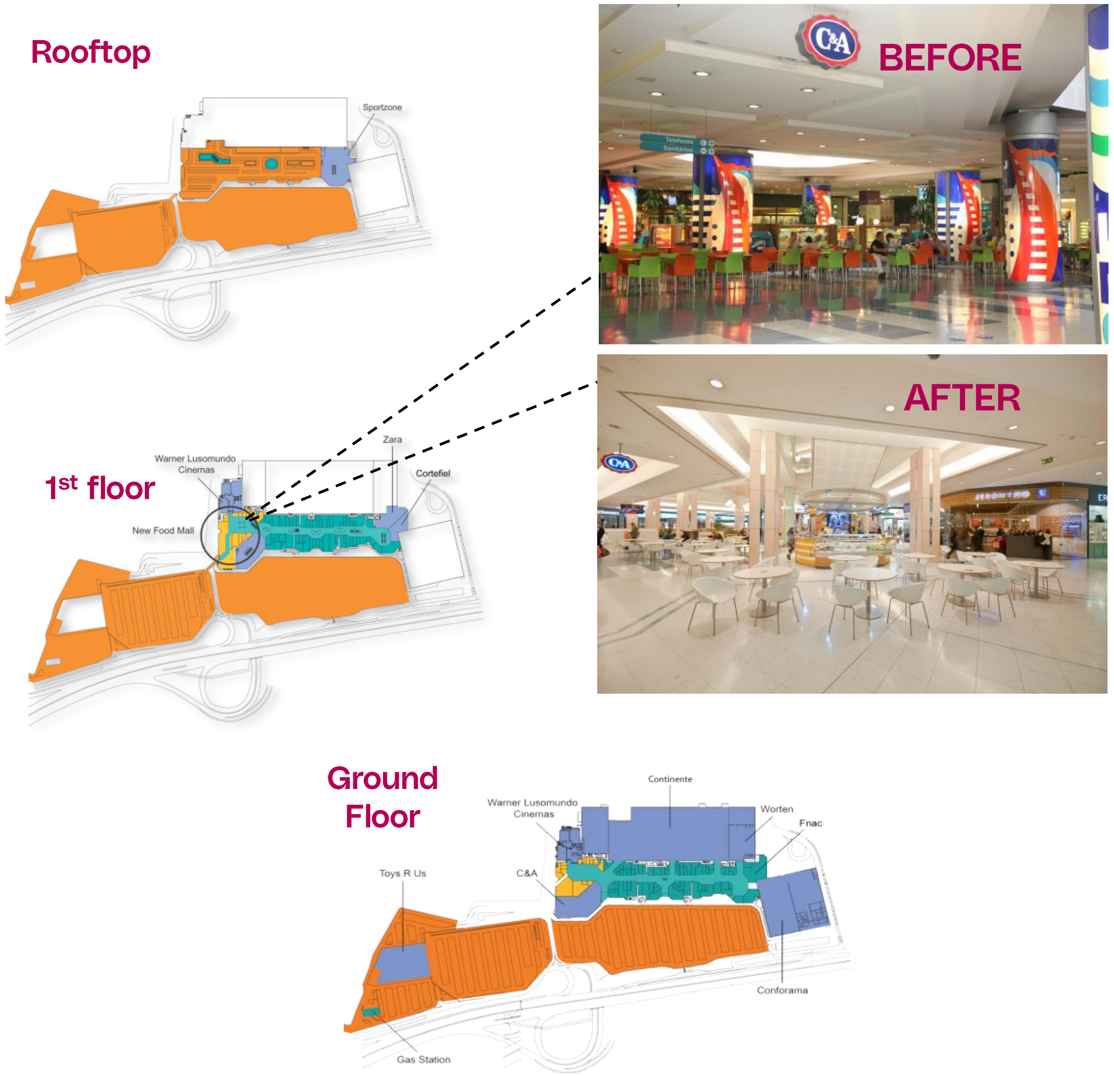
Solution

CASCAISHOPPING

CascaiShopping, which opened in 1991, was the first regional shopping centre in Portugal. It was refurbished and expanded over a 23-year period in several stages to adapt itself to ever changing consumer demands as well as the competitive environment. In 1994, a new 3,160 m2 Toys’R’Us and the addition of 500 car-parking spaces kicked off its growth.

The first significant refurbishment exercise took place in 1999-2001, adding new anchors – including Fnac, Inditex group units, Sportzone and Cortefiel – creating a new Food Court, and executing a colourful and bright shopping centre makeover. Although there was no increase in GLA, sales and rents increased significantly, by 62% and 49% respectively. **As competition in the catchment grew, a new loop mall was created in 2003** with 41 units and two anchors, adding 15% to GLA. In 2012, it was time to install a brand-new Food Court, improving the F&B mix over 2,800 m2.

CascaiShopping’s most recent refurbishment, in 2017, has consolidated previous improvements by addressing the tenant mix, creating a playground, and remodelling the WCs. An IMAX screen, new lifts and dome replacements were also added. The most recent works have improved traffic by 16.4%, sales by 23%, and rents by 43%.



Conclusion

Refurbishment programmes effectively transform retail destinations of all types and sizes, creating long-term value while delivering immersive, experience-led placemaking. While each centre merits a bespoke evaluation and applied action plan, with more complex refurbishments requiring multiple phases, their implementation can deliver outstanding results across diverse contexts and geographies.

The final effect for owners, developers, investors and tenants is dramatic, boosting asset value and creating memorable places which inspire customer loyalty. Forging a renewed sense of place helps unite disparate elements and diverse retailers, unlocking the potential of each and every asset.

The changes wrought by the digital age have altered the rules for connecting brands and consumers. Yet a well-timed refurbishment can mark the difference between success and failure, transforming a bricks-and-mortar asset into a vehicle for value creation with a long-term future.

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