

## Retailing in the 21<sup>st</sup> Century Refurbishing a live shopping centre: Department Store Remodelling

### Key cost considerations for the anchor tenant

This second blog in our retail series provides an overview of some of the key challenges and opportunities of remodelling a department store, particularly within a shopping centre refurbishment environment. We highlight the key cost considerations from the anchor tenant's perspective with the aim of providing a seamless transition between an old and newly refurbished store, and setting up for commercial success.

A major refurbishment, including extensive remodelling, of an existing shopping centre by a Landlord may have a significant impact on its retailers. An anchor tenant may be heavily impacted due to potential loss or gain of department store areas, by agreement, in relation to the Landlord's phasing for remodelling. In addition to major works internally for the anchor tenant, this causes major disruption over a prolonged period whilst maintaining trade, turnover and above all maintaining customer loyalty. The anchor tenant will see the refurbishment or extension of a shopping centre as an ideal time to refresh their store, consider their product offer, to modernise/innovate and become more efficient and flexible as a business by opening their "new" store with the "new centre" which has been adapted for the future landscape of retail.

### John Lewis Edinburgh.

Working with JLP and Henderson to identify both Fit-out and core construction works costs. Multiple phasing makes this project extremely complicated, not to mention the difficult city centre location.

### The challenge

One of the key project objectives in any store or centre refurbishment is to maintain a 'customer journey' into and around the store or centre; the customer experience needs to remain seamless, as if no construction works are ever taking place. Therefore, establishing a sequence of work in a phased manner and considering the wider development works and constraints is key to ensuring the store achieves the desired retail landscape; one that is fit for the future and akin to the look and feel of the wider development.

### Understanding the wider scheme and avoiding unnecessary costs

Early engagement with the Landlord and their project team is key. Each proposed scheme may vary but sometimes existing areas of the anchor store can be lost to the mall with new areas added to the anchor store. Understanding the impact of the Landlord's works, minimising required work zones from the

outset by influencing the design and programme of both shell and fit out works is key to managing costs and maintaining a viable budget.

With the customer journey in mind, customer entrances, customer collection points and links to car parks should be maintained as far as possible. Accessing the store easily is essential; footfall must be maximised. If any entrances or links are impacted by design, this may necessitate temporary entrances or ensuring the Landlord builds a planned car park that links the store early in the overall programme. Fire exits, stairs and the overall fire strategy will need to be reviewed and aligned to current regulations and if necessary, temporary means of escape and other solutions considered. This can be costly and therefore needs to be identified with the fire engineer having cognisance of the fire strategy of the overall Centre.

Similarly, from an operational perspective, goods handling via the service yard and vertical movement



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to distribute through the store needs to be maintained to avoid temporary measures, which again can be costly or complex for store operations. Any additional temporary operational costs will have to be considered as part of commercial negotiations between Anchor Tenant and Landlord that will take place because of refurbishing the centre.

Removing cores or complex shell modifications should be avoided or segregated. If not, the impact and disruption is significant to the retail environment (noise, dust, vibration and disruption to customer flows within the store) giving rise to a potential loss of revenue for the retailer, again another point that will feature in the negotiations.

Inevitably, the MEP Infrastructure will be impacted. Interruption of site wide combined heat and power (CHP) will necessitate temporary sources of heating and cooling. Incoming utilities may need to change location and as such require a changeover, which again adds significant cost. Due to risers and plant space being removed, infrastructure plant and services will need to be replaced in new risers and plant space locations, all the while maintaining life safety and critical points of sale (POS) systems, which again can be costly in the form of new systems, temporary provisions and phasing of works.

The wider development will inevitably be a constrained site as a result of the existing building constraints, possible development around the proximity of the site and the separate site setup for the Landlord's works. Thus, the anchor tenant's main contractor site set up and logistics will need to be carefully considered and is likely to lead to increased management and organisation costs, which are typically between 1% - 2% on measured works.

Allocation and agreement of the



**Next New Malden**

The successful delivery of the fit out of a two storey developer's shell to form a new store inclusive of both fashion and home offers and an A3 café concession.

works and phasing approach between the anchor tenant and landlord needs careful consideration. A responsibility matrix with clearly defined work zones and hoarding lines per phase is a key document.

### The Anchor store fit out - a changing market

Matching the look and feel of the anchor store with the newly modernised wider development is a challenge. The new fit out of the store will also need to meet any 'future store' specifications of the tenant, anticipating rapidly changing retail trends.

There is a fine balance in determining the scope of providing an efficient store both from a future sales and operating perspective, renewing or retaining existing fabric and fixtures, fittings and equipment (FFE). This must be fit for purpose but is not impacted by the Landlord works and does not therefore attract Landlord contributions, causing a drag on the overall viability of the scheme. From a cost perspective, this will undoubtedly be a subjective/

contentious point in the commercial negotiations between Landlord and tenant, along with other potential 'betterment' items that the anchor tenant may consider to be necessary as a result of the Landlord's works, while the Landlord may well hold the opposite view.

### Getting the scheme right

Key phasing considerations which influence construction costs for the retailer are as follows: locate the selling and back of house areas to temporary locations for the duration of the works whilst a permanent fit out is completed, or start with the new fit out from the start omitting the need for a temporary home. Each scheme will need to be considered on its own merits but getting the strategy incorrect could cost millions in both construction and loss of profit.

The phasing strategy in the store will be constrained to the piecemeal fitting out one to three areas of c. 5,000 - 10,000 ft<sup>2</sup> each, at any one time i.e. 10-20% of the sales area, to ensure trading is maintained.

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### Drivers of cost

From a Retailer's perspective, the store will need to be rearranged, requiring a decant space will be needed to unlock the 'Chinese puzzle' of FFE / sales department areas / customer offer moves. This takes meticulous planning with works being carried out in a phased manner and working out of hours to minimise the disruption. Out of hours work typically equates to 20% - 25% on measured works cost, due to labour premiums and the piecemeal nature of works. Likewise, typical main contractor preliminaries costs at 12 to 18% are likely to be on the upper end of the range due to the impact of night working supervision. The programme is generally longer, typically adding 30% - 40% to a standard fit out programme to a new shell. The key is to:

- Carefully consider the phasing strategy around the Landlord works and programme;
- Limit the number of phases and moves;

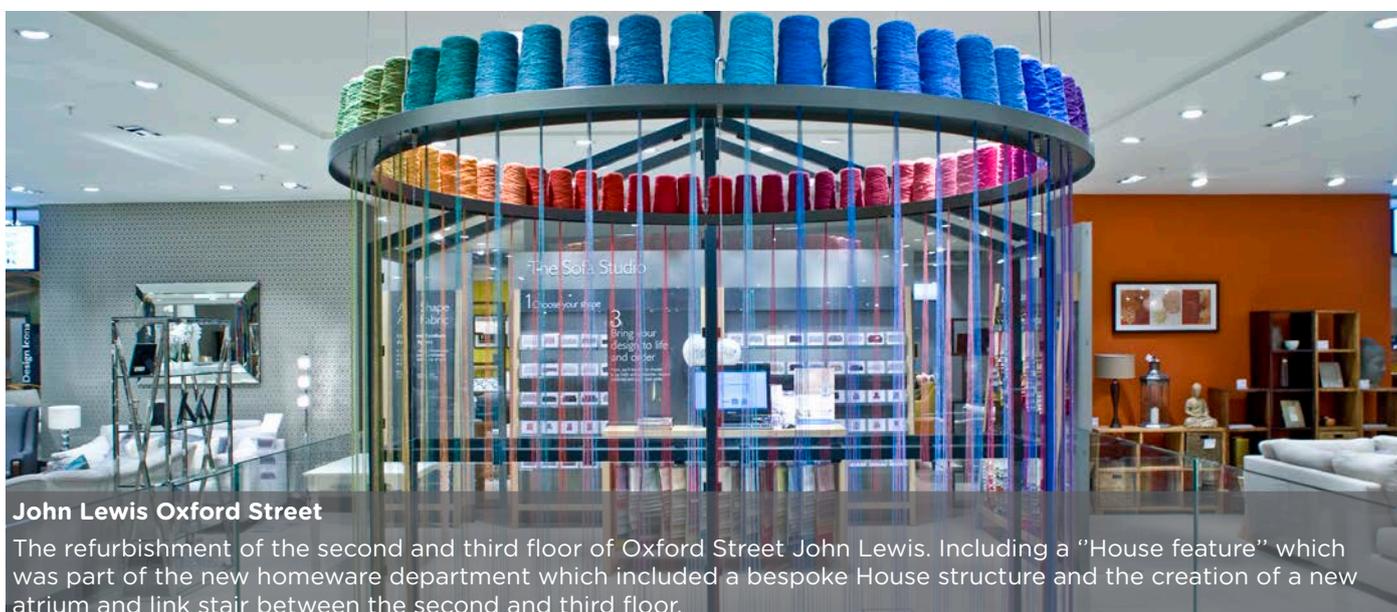
- Move things once and to minimise the number of expensive temporary moves, especially to retail areas which require services or expensive equipment i.e. comms rooms, kitchens, restaurants, audio visual, lighting, beauty brands and concessions;
- Limit out of hours working;
- Reuse of existing FFE kit, as far as possible;
- Reuse of existing lifts and escalators, as far as possible;
- Understand existing maintenance plans and expenditure with a view of reconciling against refurbishment scope. This mitigates abortive maintenance work if elements are to be replaced within the refurbishment project and will also define budget sourcing;
- Take into consideration any asbestos that needs removing and the duration it will take as the first activity of each phase.

Cost planning in the early stages for retailer brand concept standards, where the programme indicates a

start date in a few years' time, needs careful consideration and clear assumptions around phasing, IT, current brands and costings in order to support viability of the scheme.

**Procurement strategy** of the Main Contractor to carry out the works needs careful consideration due to the 'cut and carve' nature of the works within a live trading environment. The procurement is likely to be a two-stage design and build approach due to the complexity and lack of confirmed scope. Early contractor involvement is key to a successful outcome. The key will be to:

- Limit the number of Contractors based on relevant experience and understanding of retail and working within a live trading environment;
- Use individuals with a track record and experience of working with the retailer and understanding how a store works;
- Use Contractors with both Shell and fit out experience; and
- Use quality programmers.



**John Lewis Oxford Street**

The refurbishment of the second and third floor of Oxford Street John Lewis. Including a "House feature" which was part of the new homeware department which included a bespoke House structure and the creation of a new atrium and link stair between the second and third floor.

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#### Summary of the key issues to consider

- Understand the wider development and constraints and limiting the disruptive works that impact the anchor tenant and its customer's retail experience to and within the store;
- Make the shopping experience exciting in terms of what the "new" store will ultimately offer;
- Work with the Landlord/Developer, share opportunities and set the project up for success;
- The objective is to maintain sales during construction and maximise sales once the store refurbishment is completed;
- Getting the strategy and approach of how to undertake the works right could save substantial money;
- The existing fabric and infrastructure will need to match the look and feel internally with the modernised appearance of the wider development and meet rapidly changing retail trends. This will need to be balanced against the landlord contribution and if the existing is fit for purpose;
- Phasing the works by limiting the temporary works and the extent of out of hours working and programme duration/reducing this;
- Customer collect, key operational activities and staff experience must remain unaffected as far as possible;
- The extent of out of hours working is key in terms of impacting costs; and
- Defining the correct procurement strategy early.

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