

# CONVERSION OF SHOPPING CENTRES: IS IT WORTH IT?

## NEW CONSUMPTION HABITS VS TRADITIONAL SHOPPING CENTRES

It's no secret that consumption habits have evolved materially in recent years, and will continue in the forthcoming future. The consolidation of e-commerce, the increase of population in the cities, new means of transport, health, organic food and sport fashion, social media, etc. is directly confronting with the reality of shopping centres, which were designed and constructed on the thought that customers will park, shop, maybe grab a bite, maybe go to the cinema, and leave.

However, nowadays more and more customers are demanding innovative experiences, expecting from shopping centres something more than just the traditional retail & food offer. Thousands of companies offer products and experiences to cover this demand, from a surf wave to an organic food truck, but are Spanish shopping centres prepared to convert and host these new businesses? Well, whilst these new customers' demands are very well taken into account when designing and implementing new shopping centres, it is clear that the majority of existing shopping centres, if they intend to convert and devote more surface area to leisure and new businesses, is not prepared and will have to face a process which, in some cases, can be uncertain.

## MANAGING EXPECTATIONS

The expectations of owners and tenants need to be managed appropriately. A conversion and/or the implementation of innovative businesses in a shopping centre are always attractive but, from a legal perspective, require at least (a) a precise assessment of the urban planning status of the shopping centre and of the applicable regulations to ascertain if the conversion and the new activities can be implemented, as well as the approximate length of time to obtain all per-



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mits and authorizations; and (b) appropriate clauses in the lease agreements to allow the parties to pull out from the deal if at any time it is clear that the conversion or the implementation of the activity will not be feasible or will take longer than what the parties reasonably envisaged.

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## ARE PUBLIC ADMINISTRATIONS READY?

Conversion processes and the implementation of new activities will mandatorily need several authorizations from the corresponding public administrations. The question here is that public authorities are usually as traditional as shopping centres, and their regulations (especially those of the town halls) may not provide grounds

to decide on the authorization of certain activities. Issues like security or environmental impact would need to be duly justified and, even if an application is made with absolute precision, the corresponding public authority may take enormous time to make a decision, impose requirements beyond the standards (which will significantly increase the investment) or simply reject the application because the activities are unknown from a pure regulation perspective.

## WHAT ABOUT EXISTING TENANTS?

Existing tenants should not be left behind in this process. Most conversions normally imply a change in the shopping centre lay-out and therefore the need to negotiate with retailers their change to other stores. Owners should be well aware that unless expressly foreseen in the lease agreement (which is unusual) a tenant cannot be forced to move to a different store and therefore unless advantages are evident (or offered) they will have to face complicated negotiations and end up giving incentives to the tenants. Accurate calculations on what can be offered to tenants and consistent asset management will be key at this stage, always counting on the fact that it might be impossible to move certain tenants from their current stores.

## AND SO...IS WORTH TAKING THE RISK?

If the available resources are used appropriately, conversion to meet new customers' demands is absolutely advisable to maximize the value of a shopping centre. The uncertainties described can always be overcome if an accurate assessment of all angles of the conversion process is made (urban planning, lease agreements, authorizations, asset management) and an experienced team is devoted and committed to the conversion. ♦