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Memorandum

To: Nadia Broccardo
Executive Director, Team London Bridge (TLB)

From: Michael J. Berne
President, MJB Consulting

Re: Retail and Leisure Study for London Bridge

Date: April 26, 2015 (DRAFT #2)

Executive Summary

- London Bridge should be positioned in the marketplace as an alternative "boutique" destination, with a distinctive mix of shops, cafes, restaurants and pubs that consists of "one-off" independents, new concepts by existing operators and locations of small "chain-lets", along with a few larger multiples eager to associate their brands with such an offer.

- A boutique-heavy mix not only aligns with the kind of relatively affluent, highly-educated "yup-ster" consumer generated by visitor attractions such as Borough Market, Bermondsey Street and the Tate Modern, but also, responds to the paucity of alternatives across Greater London to the typical High Street offer, and would, as a result, be theoretically capable of pulling from well beyond the local catchment.

- Most small businesses, however, would probably not be able to afford or sustain the prevailing rents along the busiest pavements of London Bridge, nor would developers, landlords and brokers there necessarily be all that interested to lease to them in lieu of other, higher-paying and more creditworthy alternatives.

- As a result, highly coveted primary shopping frontages will, in the absence of any sort of deliberate policy or intervention, typically evolve into so-called "clone towns". In the case of London Bridge, the result has been a preponderance of the same food and beverage purveyors that can be found on virtually every High Street across Greater London (if not the U.K.).

- In the near term, individual landlords and brokers might be satisfied with such an outcome. Multiplying, however, the same dynamic across an entire parade – and then, an entire city – results in a less inspiring whole, a retail offer that many consumers find bland and unexciting, no different than the next High Street, which ultimately reduces footfall, sales, rents and values for those same individual interests.

- A broader approach to leasing that recognises the value of smaller chain-lets and specialty concepts is more likely to yield a truly sustainable and profitable offer in the longer term because it would be so clearly differentiated from commodity-filled competitors and indeed, have relatively few direct rivals across Greater London, and would ultimately be *less* vulnerable.

- Such an approach requires collective action by a wide range of actors and stakeholders, including (but not limited to) the following: 1) property owners and leasing professionals; 2) Southwark Borough as well as other relevant local authorities, including the Greater London Authority (GLA) and the Corporation of London; 3) existing merchants; and 4) Team London Bridge (TLB), which with its mandate as a public-private partnership as well as the level of capacity and sophistication that it can bring to bear, is arguably the entity best positioned to lead such a process.

- In addition to its promotion of a broader vision and efforts to secure "buy-in", TLB will also need to consider an in-house tenant recruitment function, whereby they would assume the responsibility of identifying, screening and pursuing desired tenancies so as to reduce the costs and risks to property owners and leasing professionals and thereby encourage a broader, more long-term approach to filling ground-floor space.

- In advocating on behalf of and canvassing for specific tenancies, TLB should focus primarily on what the market is *not* bringing to London Bridge, while deemphasising those categories and operators that already want to be there. This implies a general emphasis on shops versus food and drink, as well as a focus on independents and chain-lets instead of ubiquitous multiples.

<u>Introduction</u>

In the fall of 2014, Team London Bridge (TLB) retained MJB Consulting (MJB), a retail planning and real estate consultancy, to undertake a retail and leisure study for London Bridge that would inform the development of *A London Bridge Plan* and by extension, the Borough's *New Southwark Plan*, as well as provide practical guidance on the role that TLB and other stakeholders could play in helping to expand and enhance the retail and leisure offer.

MJB's scope-of-work for this assignment consisted of the following:

- Guided tour from and extensive discussions with TLB's Nadia Broccardo, Henry Johnstone and Shane Clarke as well as Centro's Jamie Licko (who is spearheading the planning effort for *A London Bridge Plan*)

- Self-guided tours of London Bridge and the immediate vicinity, including assessment of its existing retail and leisure offer as well as observations of relevant variables and dynamics

- Familiarisation with and follow-up research on recent, current and planned development projects as well as major public/quasi-public investments and initiatives in London Bridge and immediate vicinity

- Review of and coordination with current planning efforts, including (but not limited to) *A London Bridge Plan* and the *New Southwark Plan*

- Quantification and qualification of the primary sources of consumer demand in the London Bridge catchment area, including visitors, workers, commuters, students and residents

- Evaluation of and follow-up research on competing shopping districts and centres across Southwark Borough and Greater London

- Visits to comparable railway stations across Greater London, including London Waterloo and London King's Cross

- Interviews with major property owners, leasing professionals and key stakeholders in London Bridge, including Berkeley Homes, Borough Market, Network Rail, St Martin's Property Group, Southwark Borough, Colliers International, Kalmars as well as a Leisure Focus Group

In undertaking this scope-of-work, MJB's Principal, Michael J. Berne, applied the firm's unique "total immersion" methodology, staying in London Bridge and, to the extent possible, "living like a local" for a stretch of eight days in January 2015.

The following is a first draft of MJB's findings and conclusions, in the format of an "executive summary" memo as agreed upon in the initial contract. Note, however, that not only will this be edited and refined in response to client and stakeholder feedback, but also, it is to serve as the basis for a supportive document that would ultimately feed into both *A London Bridge Plan* and the *New Southwark Plan*.

The memo starts with the market analysis; proceeds to an assessment of retail potential and a recommendation of appropriate positioning; previews the likely outcomes of the current trajectory and makes the case for proactively trying to redirect it; presents an action plan for doing so, along with specific roles and responsibilities; and finally, outlines a corresponding tenanting strategy.

I. Market Analysis

Identifying the right "positioning" for a given retail and leisure offer requires an assessment of two discrete "markets", one in which consumers demand goods and services from businesses, and the other in which tenants seek street-level space from landlords.

a. Consumers Buying Goods and Services from Businesses

While Southwark has long been synonymous in the popular imagination with the working class, and while it remains one of the poorer boroughs in Greater London today, the area of London Bridge has reemerged in recent decades, like the South Bank more generally, and can now present a fundamentally different and far more compelling case to prospective retail tenants, with a variety of large-scale demand generators and desirable consumer sub-markets.

Indeed, in contrast to other town centres within the borough which rely largely on residential catchments, London Bridge functions more like a true city centre, with a sizeable workforce population, major visitor attractions, the largest railway station, the greatest development intensities, etc. Put another way, few would travel across Greater London, let alone the world, for even a regenerated Elephant & Castle or Surrey Quays Shopping Centre: at best, these will be commodities, unlikely ever to achieve the differentiation or sex appeal of what already exists close to the River.

London Bridge's attractiveness as a retail location can be attributed to the presence of the following sources of demand:

- <u>Visitors</u>: While far from homogeneous, this sub-market skews towards well-educated, upwardly mobile young professionals in their 20's and 30's and to a somewhat lesser extent, well-established empty nesters and retirees, all of whom are drawn to the "foodie" magnet of Borough Market, the artsy eclectisism of Bermondsey Street, the premium experience of The View From The Shard as well as other cultural attractions such as Shakespeare's Globe and the Tate Modern (in addition, of course, to the photogenic views and dining opportunities along the Thames Riverfront).

This sub-market will continue to grow in the coming years with the expansion of the Tate Modern (opening in 2016); a new location for the Dublin-based Science Gallery in partnership with King's College (2016), which is projecting 250,000 annual visitors; and a major arts anchor for the One Tower Bridge scheme. It will be losing the Design Museum of London and its 250,000 yearly patrons, scheduled to relocate to Kensington in 2016, but some percentage of that number can be expected at the public exhibitions planned there by the new owner, Zaha Hadid Architects.

- Workers: Located within walking distance of the City of London, London Bridge, according to data provided by Union Square Partners in its 2015 report on the South Bank office market, boasts roughly five million square feet of office space, which, with an 8.8% vacancy rate as of 4Q 2014 and assuming an average of 200 square feet per employee, translates to approximately 23,000 workers.

The sub-market has become known for its rather diversified mix of employers, ranging from the more traditional corporate users of More London to the growing number of "DAMIT" enterprises (encompassing design; advertising, marketing and public relations; media; internet; and technology & telecoms) occupying less conventional buildings in the vicinity of Bermondsey Street.

The above figures exclude other large-scale employers that do *not* occupy office space, most notably, in the case of London Bridge, King's College School of Medicine/Guy's Hospital and London Bridge Hospital, which together employ 4,500 + ___, including medical and dental professionals. It also does not account for all of the jobs resulting from retail, leisure and hospitality uses. For a aggregate number, TLB estimates that there are roughly 48,000 workers within its boundaries.

Additional employment growth is expected with the full take-up of the remaining space in the Shard London as well as the opening of the new Cancer Centre at Guy's Hospital, which combines for more than 2,000 new jobs. However, other than the possible redevelopment of the City of London's Colechurch House property, no new large-scale schemes are planned for London Bridge in the coming years, and according to the aforementioned 2015 report by Union Street Partners, the focus of attention is expected to shift to Waterloo, Vauxhall and Nine Elms.

- Commuters: In addition to its worker contingent, many commuters terminate at the railway station en route to jobs in the City, less than a ten-minute walk away via London Bridge. And while they might be rushed in the mornings and unwilling to stop for anything more than a coffee, they could more easily be tempted to stay for a drink and/or dinner in the evenings.

The station is the fourth-busiest in London and the U.K. as a whole, its approximately 54 million passengers comparable to other major mainline stations like Victoria, Euston and King's Cross, and with its current redevelopment, ridership is projected to jump by 35% by 2018, to 73 million. Of the 54 million, commuters account for more than 10 million, and business-related visits, another 4.8 million.

- Students: Roughly 5,200 undergraduates and 2,200 graduates – future doctors and researchers -- study at the Guy's Campus of King's College London, which contains the university's Faculty of Life Sciences and Medicine (in affiliation with Guy's Hospital) as well as its Dental Institute. The overwhelming majority must commute, as the three on-campus residence halls only provide approximately 550 beds.

- Residents: While Council-owned estates still account for roughly one-third of the overall housing stock in the Borough of Southwark, the area of London Bridge boasts a growing number of market-rate units, with residential communities to materialise soon at Fielden House (148 units), One Tower Bridge (372), The Quill (119 units) and Snowsfield Yards (41 units), adding to the existing one at Shad Thames as well as the households that have exercised "right-to-buy" options at their Council flats.

The strength of all of these sub-markets is evidenced by not just the healthy sales at many businesses in London Bridge – the Strada and Gaucho units, for instance, are reportedly the highest grossing in their respective chains -- but also, the prevailing rents, which are of course tied to and based on projected revenue and which currently range from £90 to £120 per square foot for street-fronting space in premium locations (e.g. along Tooley Street and the upper stretch of Borough High Street).

b. Tenants Leasing Space from Property Owners

Analysing retail potential requires not just an understanding of the market for goods and services, but also, if not more importantly, the one for ground-floor space. That is, there might be more than enough consumer demand to support a certain mix of businesses, but if the tenants that comprise that mix do not want to be there, or would rather be somewhere else – where, for example, the demand is even greater, the occupancy costs more reasonable, etc. – then the desired offer will *not* materialise.

It is critical, then, to start with an assessment of which tenancies currently gravitate to London Bridge. Obviously food and beverage is driving the market for ground-floor space, both A1 class users as well as sit-down restaurants: as evidenced by the rents that they are willing to pay (above), these kinds of businesses are the ones which place the greatest value on the location and most want to be there. By contrast, retail brands, while certainly aware of the area's recent resurgence, do not yet view it as a "must-have" submarket like, say, the West End.

Partly this is a function of size. As a general rule, comparison multiples prefer to locate near each other -- so as to take advantage of the resulting synergies and cross-traffic – and will therefore gravitate to large concentrations like, for example, Oxford Street and Westfield Stratford City. In contrast, fledging shopping precincts such as London Bridge are hamstrung by both the absence of such "co-tenancy" as well as the challenge of finding new opportunities for clustering on that scale.

Meanwhile, two other regeneration areas in Southwark are expected to receive rather large deliveries of new retail inventory in the coming years:

Canada Water. British Land is planning to add 110,000 square feet of retail space to the existing 309,000 square feet at Surrey Quays Shopping Centre, which it will be refurbishing. In addition, it is intending to include retail as part of a larger mixed-use scheme for adjacent property that it controls. Meanwhile, King's College London, which is hoping to build a new science-focused campus on a portion of that same site, is incorporating shop space into a new student village that it is developing nearby. And finally, Sellar Design & Development is including 133,000 square feet of retail space along with a new cinema as part of its own mixed-use project there.

Elephant & Castle. Delancey is intending to add upwards to 215,000 square feet of retail space in the demolition and redevelopment of the much-maligned Elephant & Castle Shopping Centre, in addition to its adjacent mixed-use scheme, now called Elephant One, which encompasses a cinema and full-size Sainsbury's supermarket. At the same time, Lend Lease's four-phase Master Plan for the former Heygate estate could ultimately contain as much as 180,000 square feet of retail space, with the first 43,000 square feet planned for delivery as part of Phase II, known as West Grove.

In contrast, new retail space within London Bridge will be scattered among a larger number of locations, each with a relatively modest amount of square footage. The new railway station will contain 60,000 square feet (of which a significant percentage will be let to "grab-and-go" food, drink and conveniences) and the Shard Arcade, another 8,250 square feet. The One Tower Bridge scheme, roughly eight minutes away by foot, is currently slated to include 30,000 square feet. And re-tenanting at Hay's Galleria is constrained by security of tenure provisions.

As evidenced by the existing tenant mixes at the Surrey Quays and Elephant & Castle Shopping Centre(s), the kinds of retail brands that appeal to the more affluent, better educated London Bridge consumer have not historically considered either of these sub-markets, and it remains an open question whether they will become more willing to do so in the coming years.

However, due to their transport links and relatively cheap land, these two regeneration areas are expected in the coming years to be welcoming thousands of new, market-rate housing units, along with a good deal of positive media attention. And with established retail developers like British Land and Sovereign Land (on behalf of Delancey) involved, it seems quite possible that such brands will in fact start to take a closer look.

c. Retail Market Potential and Positioning

This is not to say that High Street multiples will be bypassing London Bridge entirely, but rather, that the sub-market is, at least in the nearer term, likely to attract a somewhat more limited subset, namely, those drawn to large concentrations of daytime office workers and/or very busy railway stations, or hoping to associate their brands with its emerging identity as a hub for the artisanal and the creative (aka "faux-boutique" chains).

Otherwise, given its competitive disadvantages, London Bridge will likely be hard-pressed to compete as a true High Street retail offer. Instead, its more promising direction is as a more alternative "boutique" destination, with a distinctive mix of shops, cafes, restaurants and pubs that consists of "one-off" independents, new concepts by existing operators and locations of small chain-lets.

This positioning aligns with the values and principles espoused in the early drafts of both *A London Bridge Plan* and the *New Southwark Plan*. Indeed, inasmuch as retail is the first and often the only use that visitors and prospective tenants can see and assess, it has a critical role to play in establishing and reinforcing the identity of London Bridge as a community that prizes distinctiveness, personality and entrepreneurialism.

Such a mix would not only appeal the kind of relatively affluent, highly-educated foot traffic drawn to the area by visitor attractions such as Borough Market, Bermondsey Street and the Tate Modern, but also, it would respond to the paucity of alternatives across Greater London to the typical High Street offer, and would, as a result, be theoretically capable of pulling from well beyond the local catchment.

With some notable exceptions (e.g. Notting Hill, Camden Town, Angel, Newburgh Quarter, Gabriel's Wharf/OXO Tower, etc.), London does not present as a city of independent and boutique shops. Indeed, a widely publicised 2010 survey by the New Economics Foundation showed that 48% of London villages qualified as "clone towns", with large chains accounting for more of 50% of the retail offer, and another 19% were on the verge of such status.

The result is that a very large sub-market, the one most closely associated with London's current property boom – the "yup-ster" psychographic – remains grossly underserved. Consisting primarily of upwardly mobile young professionals and well established empty nesters who combine the incomes and consumerism of the *yuppie* with the creative and alternative sensibilities of the *hipster*, this cohort, while not vehemently anti-chain, tends to be drawn to the unique and artisanal, is generally willing and able to pay a premium for it, and would venture further afield for such an offer.

This preference implies a fundamentally different framework for classifying retail uses and centres, from one that contrasts "comparison" and "convenience" to one that distinguishes "commodity" from "specialty". A High Street brand, for instance, might sell comparison goods, but if it can be found on virtually every shopping parade in London, it is effectively a *commodity*, purchased by the consumer on the basis of convenience, just like, say, orange juice or dry cleaning.

If, on the other hand, a particular shop is the only one in all of London that offers a certain kind of clothing, it is then a *specialty* retailer, which the consumer would presumably travel a great distance to visit, passing many commodity brands in the process. Such businesses, especially when clustered together, can serve to greatly expand the catchment area and raise the visibility and profile of the area more generally.

Of course, part of the explanation for the relative dearth of such clusters lies in high ground-floor occupancy costs, which tend to correlate with footfall: most small businesses, for example, would probably not be able to afford or sustain the aforementioned rates of £90 to £120 along the busiest pavements of London Bridge, nor would property owners there necessarily be all that interested to lease to them in lieu of other, higher-paying alternatives.

d. Current Direction

Consumers might long for something more unique and artisanal, but of course they are only one part of the story. If faced with a choice, most property owners would opt for the tenant that is willing and able to pay the highest rent, and that offers the most credit, while brokers, paid solely by commission, also seek to maximise lease rates and look for the quickest and simplest deal possible.

In other words, the current incentive structure within which property owners and leasing professionals operate generally favours larger chains, and so the primary shopping frontages that draw the interest of many such tenants will, in the absence of any sort of deliberate policy or intervention on the part of local authorities and other stakeholders, typically evolve into "clone towns".

In the near term, individual landlords and brokers might be satisfied with such an outcome. Multiplying, however, the same dynamic across an entire parade – and then, an entire city – results in a less inspiring whole, a retail offer that many consumers find bland and unexciting, no different than the next High Street, which ultimately reduces footfall, sales, rents and values for those same individual interests.

These are classic cases of game theory's "Prisoner's Dilemma", in which actors behaving as incentivised, pursuing a course of action that would seem to maximise their returns, together give rise to an overall outcome that is sub-optimal for their bank accounts as well. The irony, of course, is that they would each individually have arrived at a better result if they had initially chosen to work together and coordinate efforts.

A broader approach to leasing that recognises the value of smaller chain-lets and specialty concepts is more likely to yield a truly sustainable and profitable offer in the longer term because it would be so clearly differentiated from commodity-filled competitors and indeed, have relatively few direct rivals across Greater London. Some tenanting decisions might involve a greater degree of risk, but London Bridge as a whole – and hence, its individual interests -- would ultimately be *less* vulnerable.

And as explained before, such an offer would, as a result of its distinctiveness, serve to expand the catchment area so as to encompass a much wider swath of Greater London. It would therefore generate a larger number of potential customers for the area's *existing* merchants as well as increase ridership on trains that call at London Bridge, thereby reinforcing Network Rail's sizable investment in the station's refurbishment.

Finally, it is especially important in today's knowledge-intensive industries to view and treat the retail offer as part of a larger package of amenities needed to attract the best workers and students, meaning that in addition to property owners, London Bridge's major employers as well as King's College London would also seem to have an incentive to work towards a more compelling mix.

On a somewhat similar note, inasmuch as they are typically able to afford and absorb higher occupancy costs, an unfettered free market often leads to a preponderance of food and beverage uses, bank branches and estate agents, especially in areas with London Bridge's demand profile. This acts to limit opportunities for other kinds of tenants – like shops, for example -- resulting in an undiversified mix suitable only for a rather narrow range of activities and itineraries.

Such an offer would theoretically be more vulnerable to both economic swings as well as changing tastes and lifestyles. Indeed, trends in dining and nightlife are notoriously unpredictable, and while the ascendancy of "foodie" culture has greatly benefitted London Bridge in recent years, spreading the risk more evenly across different categories would seem like a more prudent investment strategy for the area as a whole.

e. Action Plan

In order to mitigate the effects of the "Prisoner's Dilemma" and avoid the sub-optimal outcomes to which it often leads, one must first be willing to accept the shortcomings of the free market and then, to consider the possibility that a more proactive strategy – carefully designed, with an understanding of unintended consequences, and in partnership with other stakeholders – would not endanger the body politic, but rather, yield a superior outcome, even for private-sector interests.

An essential first step, then, would be a concerted effort to secure "buy-in", to both this general principle as well as the specific roles and responsibilities that would be required. And with its mandate as a public-private partnership as well as the level of capacity and sophistication that it can bring to bear, Team London Bridge (TLB) is arguably the entity best positioned to lead such a process.

Property owners and leasing professionals: As discussed earlier, private sector actors are not incentivised to think or act in such terms, and should therefore *not* be expected to do so on their own. Rather, the approach would accept this reality -- that if given the choice, most landlords and brokers would still opt for the higher rents and better credit of the multiple – while strategically assessing which ones might be more likely to consider alternatives.

For example, some property owners *already* recognise the drawing power of specialty retail in urban culture today. The area's star attraction, Borough Market, is defined by and very protective of its artisanal character, and will undoubtedly continue along those lines in plans for its twin gateways at Winchester Walk. And Meyer Bergman will be teaming with Sherwood Street on the redevelopment of the now-closed Vinopolis complex in the railway arches next door into 194,000 square feet of boutiques, restaurants and bars.

Furthermore, St. Martins Property Group and The Berkeley Group have expressed at least an initial openness to consider smaller chain-lets at their Hay's Galleria and One Tower Bridge estates. Indeed, the latter would seem an especially promising candidate, given the yup-ster footfall likely to be generated by its cultural anchor as well as the possibility that the Corporation of London, which controls the space on one side of the envisioned retail parade, would be willing to coordinate on such an approach.

Other kinds of landlords might offer below-market rents to small businesses because they have cause to think beyond just one isolated deal for a single space. Examples include non-for-profit organisations or institutions with a broader "mission" and/or private owners of large estates or portfolios that recognise the value of "loss-leaders" as a means of driving premiums on the remaining space and/or other uses.

A more memorable offer, for instance, would advance the core missions of both Network Rail and King's College London, the former by expanding the catchment and thereby increasing ridership, and the latter, as noted above, by helping in the competition to attract the best students and workers. Indeed, major employers in London Bridge are presumably even more preoccupied with finding and retaining "talent", and might look to influence the retail leasing efforts of their landlords with this in mind.

Meanwhile, in less central locations, property owners usually have fewer options for tenants and therefore less leverage on pricing. In addition to the six arches that it will be required to lease at affordable rents to "small and medium-sized enterprises" (SME's), Network Rail would likely struggle to attract the interest of typical High Street brands to similar "Lowline" units east of Bermondsey Street -- along, say, Crucifix Lane or Druid Street. The same applies to the scattered frontages along Snowsfields and elsewhere in The Yards.

With its continued decline as a shopping parade and its proximity to both Old Kent Road and Elephant & Castle, the two-block stretch of Tower Bridge Road roughly between Grange Road and Green Walk is also unlikely to tempt such multiples, and in fact, appears poised to capture the spillover from Bermondsey Street and assume more of a yup-ster orientation, an evolution which could accelerate in the aftermath of planned streetscape improvements.

Finally, there are the different forms of leverage that the Borough of Southwark can use in an effort to influence such leasing decisions. These various "carrots" and "sticks" could be deployed – and, in the case of the railway arches along St. Thomas Street, already has been -- in strategic locations that might otherwise fill with the usual suspects. They will be discussed in greater detail below, in the section on Southwark Borough.

Southwark Borough: In outlining where large amounts of additional retail and leisure space might be accommodated, the Borough has thus far appeared to understate the potential in London Bridge, focusing instead on town centres and opportunity areas – specifically, Elephant & Castle, Canada Water and Old Kent Road -- that serve mid-market and/or low-income catchments today but which are capable of accommodating redevelopment on a very large scale and will be experiencing massive population growth in the coming years.

This approach, however, not only undervalues the impact of non-residential consumer demand (e.g. visitors, workers, etc.), but also, reflects an overly simplistic typology for identifying different kinds of retail uses and centres. London Bridge might not approach the sheer scale of an Elephant & Castle or a Canada Water, and might indeed be less likely to attract High Street brands, yet the extent of its reach can be far greater, owing to its base of specialty (versus commodity) retail concepts as well as the relative lack of competition in that space.

Although it falls below the minimum threshold of 50,000 square meters, the retail mix and potential of London Bridge would suggest classification as a "Major Town Centre", in that it serves both convenience and comparison functions and is theoretically capable of pulling from across the Borough and beyond. Its appeal, however, is rooted in a fundamentally different and seemingly counterintuitive dynamic, weakening as it grows in size and profile, with its core customers bemoaning the loss of its human scale and spirit while its small businesses are displaced by its escalating cost structure.

Such a fragile ecosystem needs different forms of protection, perhaps even a new classification within the existing hierarchy. For example, the elevation in rent levels resulting from a proliferation of licensed premises, bank branches and/or estate agents can narrow the range of categories and effectively exclude boutique shops. These sorts of impacts can be controlled to some extent with "saturation zones" and percentage thresholds for licensed premises and/or protected shopping frontages that only allow A1 class uses.

Indeed, this is the nature of the challenge facing today's Bermondsey Street, where the opportunity for a truly diversified offer, consisting of restaurants, pubs, cafes *as well as* boutiques, might already have passed as a result of the proliferation of alcohol-serving establishments and estate agents. And to the extent that shopping is still a possibility, it is more likely to arrive at this point in the form of those larger faux-boutique brands that typically gravitate to such hip, artsy enclaves, like, for instance, the kind found on Commercial Street in Shoreditch.

On one level, these kinds of retailers might be welcomed on Bermondsey Street, inasmuch as most yup-sters actually prefer a balanced *mix* of independently owned shops *and* select widely-known brands. Alternately, experiments in certain U.S. cities offer some possible approaches for limiting or prohibiting so-called "formula retailers" in existing spaces, although such regulatory tools can backfire with all sorts of unintended consequences if not properly studied and carefully implemented.

With new mixed-use schemes, the Borough of Southwark could insist on s106 agreements – similar in spirit to the one for Network Rail but with some needed tweaks and refinements to the details -- when planning permission is sought. Indeed, the stretch of St. Thomas Street eastward from The Shard can become a natural extension of Bermondsey Street – rather than the next frontier for ubiquitous quick-service food and beverage concepts -- if projects like The Quill and others proposed in the future are required to fill their ground-floor spaces with smaller-scale businesses.

Alternately, the Borough could offer the prospect of expedited determination for applicants that promise to lease to independents and chain-lets. Local authorities often do not realise the true costs and risks of a delayed or slow process, during which developers and retailers are incurring expenses but cannot yet generate the revenue to cover them. In this sense, offering a quicker pathway – tied to a preferred tenanting approach -- can serve as a real incentive.

Assuming a willingness or requirement to lease to SME's, property owners will also need to consider providing some form of financial assistance to mitigate the costs of up-fitting space, which are often prohibitive for such tenants. (A period of free rent or a deal based largely on turnover rent might not be sufficient, as they still assume that the operator is capable of a large up-front expenditure). This condition was not included in the s106 agreement with Network Rail, which could ultimately prove to be an insurmountable hurdle for such businesses.

Again, the Borough of Southwark might consider various carrots and sticks to influence landlord behaviour in this regard. For example, it could partner with community-oriented financial institutions to establish -- and then charge TLB with administering -- a forgivable loan fund that matches or at least supplements whatever assistance the given property owner is willing to offer to SME's for such fit-outs. (However, providing support for a tenant's operational costs – like rent subsidies, for instance – would not be advised).

These kinds of incentives are often received with scepticism, as they are viewed as interfering with the workings of the free market. Indeed, the s106 agreement with Network Rail does not require assistance with fit-out costs, nor is Network Rail inclined to consider such provision. Yet this hurdle has already been specifically recognised in the early draft of the *New Southwark Plan* in connection with the goal of encouraging small-scale B1 office uses, and would need to be addressed as part of any serious effort to position London Bridge as a destination for boutique shopping.

Finally, the A1 use class itself is in need of refinement, as it encompasses quick-service food and beverage concepts – like Pret A Manger and Costa Coffee – that are both willing and able to pay top dollar for desired locations, thereby increasing barriers-to-entry for other sorts of A1 uses and independently run businesses. For example, Pret A Manger is reportedly paying a Zone A rent of £300 plus turnover at its 11 Borough High Street locations (and apparently registering sales levels thus far that more than justify the high price).

Indeed, Borough High Street exemplifies the problem: while it is technically a protected shopping frontage, the current definition of an A1 use would still allow for *more* quick-service brands there, in addition to the three Pret A Manger's, two Subway's, two Starbucks Coffee's, etc. that already hinder the emergence of any sort of distinctive character. Not only is this partly to blame for a decidedly uninspiring gateway to Borough Market, but also, it does not help the lower-profile stretch further south to cultivate the kind of destination appeal that would be needed to drive weekend footfall.

Existing merchants: Some business owners are wary of tenant recruitment because they fear the potential impact of new competitors. For dining, nightlife and comparison retail, however, the opposite is often the case, with larger clusters able to draw from a far wider catchment area and generate greater footfall for all. Indeed, this is the logic behind massive shopping centres like Westfield Stratford City as well as entertainment districts such as The O2.

In addition to this line of argument, the various incentives to be offered as part of the effort to attract new tenants (above) should be made available to current businesses as well. For example, merchants interested in either enhancing their physical spaces or expanding to larger ones would also be able to apply to the forgivable loan fund for financial assistance.

Such inclusion is advisable not just as a means of engendering good will but also, so that these businesses realise and fully maximise their potential. Indeed, their performance is a critical factor in a prospective tenant's evaluation of a possible location: they can either become London Bridge's best advertisement and ambassador, or a "black eye" which recruitment efforts would struggle to overcome.

Team London Bridge: In addition to its advocacy of a broader vision and efforts to secure "buy-in", TLB will also need to consider an in-house tenant recruitment function, whereby they would assume the responsibility of identifying, screening and pursuing desired tenancies so as to reduce the costs and risks to property owners and leasing professionals and thereby encourage a broader, more long-term approach to filling ground-floor space.

This is no small undertaking: indeed, for leasing agents it is a full-time job. However, TLB will be the one relied upon to provide legitimate prospects to Network Rail for the six arches along St. Thomas Street, as well as other developers that sign similar s106 agreements with the Borough of Southwark in the future. Indeed, if it is to advocate on behalf of small and independent businesses in London Bridge, it should have some specific prospects at the ready for landlords and brokers that ultimately agree to lease in such fashion.

The preparation and set-up for such a role would require the following steps:

- An additional round of outreach to property owners and leasing professionals, so as to outline TLB's tenanting strategy, to clarify its purely *supportive* role, to confirm their "buy-in" and to understand their leasing expectations and constraints

- Extensive "Retail 101" training of a TLB staffer charged with recruitment, so that he/she understands how tenants generally think and talk, what they typically look for in a market and location, what they are most likely to respond to in a pitch, etc.

- Creation of a database of available ground-floor spaces, including existing vacancies and expiring leases (without "security-of-tenure" provision) and containing relevant details such as square footage, linear frontage, condition and improvements, etc.

- Development of visually-compelling retail leasing collateral that presents a narrative of as well as frames the opportunity in London Bridge, for use as a tool to help in attracting prospective tenants

From there, the TLB staffer will proceed to canvass for prospects in similar areas elsewhere in London and across the U.K., conduct extensive research on and rigorous screening of these operators, and then pitch them on London Bridge as a retail location, steering interested leads to landlords and brokers marketing spaces that meet their specific criteria.

In assuming this leadership role and recruitment function, TLB will be steered and guided by a Retail Advisory Board comprised of the primary actors and stakeholders, including major property owners, active leasing professionals and Southwark Borough as well as others that figure prominently in the strategy and action plan, like, for instance, the GLA, Better Bankside, etc.

f. Tenant Mix Plan

In advocating on behalf of and canvassing for specific tenancies, TLB should focus primarily on what the market is *not* bringing to London Bridge, while deemphasising those categories and operators that already want to be there. The point, after all, is to devote the time and assume the risk inherent in trying to unearth prospects which landlords and brokers content with the "low-hanging fruit" are not incentivised to pursue.

This implies a general emphasis on shops versus food and drink. For a variety of reasons, London Bridge is an easier sell to the latter, yet a more diversified mix that also offers opportunities for browsing and buying apparel, footwear, accessories, home accents and other such comparison goods would be not only less vulnerable to changing tastes but also, generate more varied footfall and hold more interest for consumers.

Moreover, the positioning strategy calls for a focus on distinctive small businesses instead of ubiquitous multiples. This would encompass a wider range of prospective tenants than is commonly understood, including not just first-time entrepreneurs but also, modestly sized “chain-lets”, new concepts by existing operators as well as non-permanent formats like fashion trucks.

At the same time, TLB must always stay within the boundaries of what would be realistic, in light of the requirements and preferences of prospective tenants as well as the expectations and imperatives of property owners. Nothing is to be gained, for instance, in trying to sell either an operator or a landlord on a space or a tenant to which it is unlikely to give serious consideration.

Furthermore, TLB must take care to steer interested leads towards locations where they are most likely to be successful. If not, the eventual failure of such businesses would result in the aforementioned “black eye” that undermines future recruitment efforts. Appropriate targets, then, will vary by street, and in some cases, include food and beverage.

Given the 32% of its footfall that are “non-travellers” as well as the offer at comparable mainline stations like King’s Cross, the <u>railway station</u> offers perhaps the best opportunity for a collection of shops, and indeed, Network Rail has said that it plans to take advantage of the relative dearth of such businesses in London Bridge and provide a mix that also draws nearby residents.

Owners of the <u>Shard Arcade</u> are also reportedly pursuing fashion retailers, although progress there has been slow, perhaps owing to circulation patterns, which do not appear to guarantee footfall. Also, leasing efforts have apparently centred on upscale brands, while the more likely candidates, both for the Arcade and the station itself, are service-oriented or can be shopped in a relative hurry, for say, a gift or an accessory.

Larger multiples are realistic in – and arguably, the most appropriate tenants for – these locations. And inasmuch as both property owners are likely to insist on businesses with excellent credit, TLB should try to focus their attention on those faux-boutique chains that at least incorporate some level of creativity or craft into their merchandising and marketing, like, for instance, Oliver Bonas or Paperchase.

The owner of <u>Hay’s Galleria</u> intends to retain the food and beverage orientation closer to the riverfront, but is open to comparison retail on its Tooley Street frontage. And while it seems to default in its thinking to typical High Street brands, it might be willing to consider faux-boutique chains or creditworthy chain-lets, especially if the larger multiples secure more desirable locations within the railway station.

The developer controlling one side of the “Duchess Walk” parade envisioned at <u>One Tower Bridge</u> has also stated a preference for chain-lets. Indeed, more distinctive shops would align with a (daytime) cultural anchor, and might ultimately be the only option anyway, given the challenges that the corridor could face with footfall owing to its off-centre location, its lack of existing co-tenancy and its discontinuous retail frontage.

On the other side of the viaduct, the stretch of St. Thomas Street in the immediate vicinity of the new railway station entrance could draw the interest of larger multiples, particularly quick-service food and drink purveyors that would also appeal to the nearby hospital community. However, such tenants would dilute the corridor's larger potential as the next Bermondsey Street.

Indeed, as the primary pedestrian route to Bermondsey Street from the railway and tube stations, The Shard and Borough Market, St. Thomas Street seems well positioned to capture the attention of yup-ster consumers with comparison goods retail – both one-off operators as well as chain-lets -- that speak to their artistic and "indie" sensibilities, their interest in craftsmanship, etc.

In order to ensure such tenanting, developers of new mixed-use schemes along St. Thomas Street -- like The Quill as well as future ones further east that will need planning permission – should be compelled to sign s106 agreements that require small businesses in their ground-floor spaces. Furthermore, the entire stretch should be designated a protected shopping frontage (with A1 food uses prohibited).

Obviously Maltby Street Market and its artisanal food vendors provide one model for the tenanting of the "Lowline" arches to the east of Bermondsey Street, but with their relatively low footfall and presumably affordable rents, these spaces as well as others along Snowsfields and in the Yards might also be conceived as incubators for aspiring fashion designers, in keeping with the area's historic associations as well as the nearby Fashion and Textiles Museum.

Bermondsey Street itself is currently weighted towards sit-down restaurants and pubs, and, left purely to market forces, would likely continue to fill with food and beverage. A few additional quick-service options might in fact be welcomed -- so as to provide greater variety for the beehives of creative businesses in the adjoining yards – although they are perhaps best provided in a more inventive format, like, for instance, food truck pods fronting on Tanner Street Park.

Otherwise a more diversified offer should be encouraged along the corridor, implying designation as a protected shopping frontage (with A1 food uses prohibited), a commitment to retail uses at street level (versus business floor-space) and perhaps even permission for fashion trucks along Tanner Street Park. Given Bermondsey Street's high profile, faux-boutique chains are already showing interest, although its artsy/indie brand probably would not survive the arrival of tenants any larger than chain-lets.

One of the only locations in London Bridge where food and beverage arguably should be encouraged is the two-block stretch of Tower Bridge Road roughly between Grange Road and Green Walk. While it has already started to capture some of the yup-ster spillover from Bermondsey Street, this parade is still in the early stages of an evolution that typically begins with restaurants, pubs and cafes, and only later starts to diversify its offer to include shops.

This trajectory, however, threatens Tower Bridge Road's longstanding role as a local parade for working-class consumers, and turn it into another flashpoint in the fierce debate about gentrification in the borough. In this sense, its designation as a protected shopping frontage and prohibition on new A3 and A4 uses could be protective in more ways than one, depriving the stretch of the kinds of pioneering offerings that would steer it in a more up-market direction.

The other location where such uses would be appropriate is <u>Borough High Street</u>. Along the "upper" stretch roughly from London Bridge to the fork, the undisputed anchor of Borough Market implies either food and beverage (of the artisanal variety) or food-related retail, with well-capitalised operators that can afford the extremely high occupancy costs. In this context, the surfeit of bank branches and quick-service multiples underwhelms.

The "lower" portion, from the fork south to the Borough tube station, is a different matter entirely. Its designation as a protected shopping frontage came a bit too late, as its character seems largely decided at this point, with a rather unremarkable offer -- dominated by quick-service food and drink purveyors, estate agents and ground-floor office uses -- that is unlikely to pull the Borough Market hordes in its direction, and with a near-complete absence of comparison goods co-tenancy that could serve as the basis for a broader draw in the future.

As a result, businesses must rely almost exclusively on a local, weekday-daytime trade, which, limited only to shops, could result in a rather stagnant market for ground-floor space. However, King's College London could assume more of a catalytic role, not just as a retail landlord but also, by developing or sponsoring a large number of new student residences in the immediate vicinity, which would increase evening and weekend demand in the longer term.

Finally, it is worth noting that some of these locations call for immediate action while others will have to await new development. Other than The Quill, for example, there can be no s106 agreements for ground-floor retail space along St. Thomas Street until new schemes are put forward and submitted for planning permission. On the other hand, recommendations on the ever-evolving Bermondsey Street cannot be implemented soon enough.