

Property Managers Association
C/O Karen Whittington
The Dolls House
Audley End Business Centre
Saffron Walden
Essex CB11 4JL

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SENT BY EMAIL

Dear Karen

Centre: Hammerson Portfolio
COVID-19 Update - Service Charge Reductions

We recognise that this is a challenging time for all of us, and that we are all looking at how we can reduce costs in light of the continued uncertainty as a result of COVID-19. That is why we wanted to get in touch to provide an update on the steps we are taking to reduce the Service Charge for your unit(s) within our flagship destinations.

We announced on Monday 30 March that we are expecting to be able to reduce Q2 (1 April - 30 June) service charge costs by approximately 40% across our portfolio in the UK & Ireland. However, it is important to note that the scale of this reduction will vary from destination to destination and in accordance with individual lease terms.

As you are aware all our destinations are closed, with the exception of essential stores such as supermarkets, pharmacies, and banks. However, we still need to keep them safe, secure, and clean.

We wanted to update you on how we have achieved these reductions, and also what we are doing to ensure our destinations are properly maintained and are in a position to open as soon as the current Government guidelines are relaxed.

After a comprehensive review of planned spending, we have remodelled our 2020 service charge budgets with the aim of delivering a significant cost reduction to our retailers.

There are three areas of focus to this approach:

1. **Cease non-essential activities for the remainder of 2020**
 - These are goods or services which, while important in regular circumstances, can be categorised as 'non-essential' for the remainder of 2020 - for example, our Retailer Awards.
2. **Reduce costs on a pro-rata basis or for a contractual period**
 - This includes areas where there are natural cost reductions as a result of destinations being largely closed - for example, reductions in water consumption.
3. **Postpone works**
 - We have identified works which will be completed, but can be postponed until 2021. In doing so we have taken care to ensure these initiatives are non-essential and not a Health & Safety obligation - for example, redecoration of front of house malls.

Cleaning, customer service, and marketing

We are now operating a reduced cleaning model and our contractor is furloughing 80% of its team. However, we will continue to clean key customer touch points to ensure our centres remain safe for visitors and colleagues.

All customer service and shop mobility colleagues have been furloughed until 23 May 2020 at the earliest. We will review this next month based on the latest developments and the likelihood of the current set of restrictions being lifted in the near term.

Marketing costs have also been reduced and our events programmes have been suspended for a minimum of three months.

Security

The safety and security of our colleagues, customers, and everyone working at our destinations is of paramount importance to us. As a result, we are maintaining security services, and our flagships will continue to be manned 24 hours a day. We also have on site CCTV monitoring and surveillance in place. We will review the changing security landscape on an ongoing basis with our advisors to ensure these measures remain appropriate.

Centre management teams

We have furloughed a number of centre management colleagues, and the remaining team members are focused on ensuring the safety of the destination, maintaining its fabric and integrity, and continued financial management of the service charge.

We have not yet included the potential cost savings of this in the revised budgets, as at the time of writing the HMRC portal was not in place, so we were not able to secure confirmation that centres will be eligible to participate in this scheme. If we are successful in securing furlough status for the centre management teams we will of course pass this cost reduction on to tenants later in the budgetary period.

Major works programmes and repair and maintenance costs

All major works programmes have been reviewed and, where possible, delayed until 2021. This does mean that we will need to present these programmes of works again to you when setting the budget for 2021. Some items cannot be delayed as they are essential to the ongoing security and integrity of our buildings (e.g. CCTV replacement).

We have reduced our repair and maintenance costs by removing non-essential PPM and work to identify reactive repairs will reduce for one quarter. However, we continue to maintain statutory compliance and will carry out any work required to sustain the fabric of our buildings.

In addition to the above, we are also pursuing additional discretionary cost reductions - for example Business Rates Relief and S44 applications for management suites, which will be incorporated into the budgets if we are successful at a later date.

The overall net benefit of these above measures will vary from centre to centre and from retailer to retailer depending upon the level and scope of reductions which can be applied.

The timing of applying these cost reductions to your Service Charge account will vary as some of our centres have different quarter dates. We are working to deliver cost reductions for the Scottish centres, Union Square and Silverburn first, as the quarter day is pending and invoices are due to be issued shortly.

Our property managers will circulate individual letters outlining the specific cost reductions for each centre shortly.

In the meantime, please stay safe and if you have any additional question, please get in touch.

Yours Sincerely

Ali Mew

Mrs Ali Mew
Head of Property Management