Urban Land Institute

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Eat, Drink, Dwell: New Concepts in Shopping and Leisure

Introduction

The retail and entertainment sector is one of the most dynamic in the real estate industry. From shopping centres, high street shops, and out-of-town retail parks to restaurants, cinemas, and concert venues, ULI Europe's Retail and Entertainment Council examines all aspects of ownership and operation in this sector. Through a programme of events and original content, the council draws ideas from both established best practices and emerging trends to provide members with insights into the retail and entertainment market.

In recent years, many observers have noted retailers increasing their use of service and food and beverage offering as a way of enhancing their offering. In recognition of this trend and the impact it will have on members' business and investment strategies, the council commissioned research into the growing role of leisure and experience in shopping centres and city centres around Europe.

This report presents the findings of this research. Drawing on in-depth interviews with leading practitioners in the retail sector, this report explores changing trends in retail concepts, in particular leisure and food and beverage offerings, and their real estate implications. It highlights what is working well and how current changes are affecting the vibrancy and liveability of urban retail developments.

De Heuvel in Eindhoven, The Netherlands. Source: CBRE Global Investors

View from the top

ULI interviewed eight senior retail executives from various European real estate fund management and investor companies in December 2015 and January 2016. These interviewees represented a cross section of retail investors, developers, researchers, landlords, and asset managers. Interviewees' interests included both high street retail and shopping centres across the major markets in Europe. In addition to the interviews, select data analysis was conducted to supplement interview findings.

Three key findings emerged from the research:

- While retail sales remain the primary source of revenue, retailers and investors are broadening the definition and array of activities on offer. Food and beverage is the primary growth area, with additional expansion in services and leisure.
- Full integration between online and in-store retail has become a given, but it is a challenge to do it well. Offering both is crucial though, as it has a substantial impact on customer experience and satisfaction.
- The rapid pace of change is exciting, but also risky. New concept stores, locations which are repositioning, and brands which are succeeding and/or struggling require stronger asset management, flexibility, and leadership.

The experience economy is driving in-place retail

Customers of all ages enjoy being together. Even in the age of social media, the best social experience is being face to face, whether that involves sharing a meal, browsing stores, exercising, or simply hanging out. The creation of memory—of experience together—is inspiring the development of how shopping centres look and feel.

By adding activities within shopping centres or on high streets that encourage people to stay longer, browse more, and engage more, retailers are finding the "dwell" time is increased. Customers return more often and the impetus for coming to the location is multiplied. In a recent survey of 22,000 consumers across Europe, South Africa, and the UAE, CBRE found that 80 per cent of consumers visit a shopping centre at least once a month, with 42 per cent visiting at least weekly.[1]

"Customers are seeking novelty, inspiration and curiosity."

- Andrew Vaughan, Redevco

Owners are seeking new occupiers to attract new customers. Brands are changing in-store and window displays more often and expanding in-store activities. Consumers of all ages enjoy shopping as one of their principal leisure activities. In the age of instant tweets and rapid-fire news, retail must keep pace.

The internet has not killed, nor will it kill or replace, the enjoyment of personal interactions; millennials report that they prefer experiences over "stuff". In response to competition from online retail, bookstores are now offering more experiences and activities that cannot be found online. These include book groups, children's story hours, and author-related and author-inspired travel excursions, as well as cafés and technology allowing customers to publish their own story.

In the US, Nike and Nordstrom offer a shoe service through which the consumer can design a shoe to his or her specification, choosing colour, heel height, fabric or leather, and any ornamentation. This customisation and individual service is increasingly available to online and in-store shoppers.

The square Gae Aulenti, part of the recently finished major urban regeneration project Porta Nuova in the centre of Milan, is home to the store Feltrinelli RED, a new retail format dedicated to both reading, and food as culture. The 500 square metres of the premises are divided into a bookstore and a restaurant serving traditional Italian food and wines, selected by Feltrinelli on the basis of principles such as quality, sustainability, and accessibility.

The expansion of food offerings in every form is playing out across European shopping centres. Figure 1, excerpted from CBRE's research, shows that the majority of respondents, and in particular younger people, cite the food and beverage offerings as an important factor in deciding which retail location to visit.

In response to this demand, traditional food courts have given way to ethnic restaurants and gourmet shops. Interest in how food is prepared, where it comes from, and how it is grown has spurred an increase in the number of specialty restaurants as well as shops selling gourmet oils and vinegar, custom-made pasta, and specialty sauces. Cooking classes have expanded as a popular way for young people to meet new friends and couples to enjoy common interests on a date night.

[1] CBRE, "Food & Beverage in a Shopping Centre", 2015, p. 5.

Altmarkt Galerie, Dresden

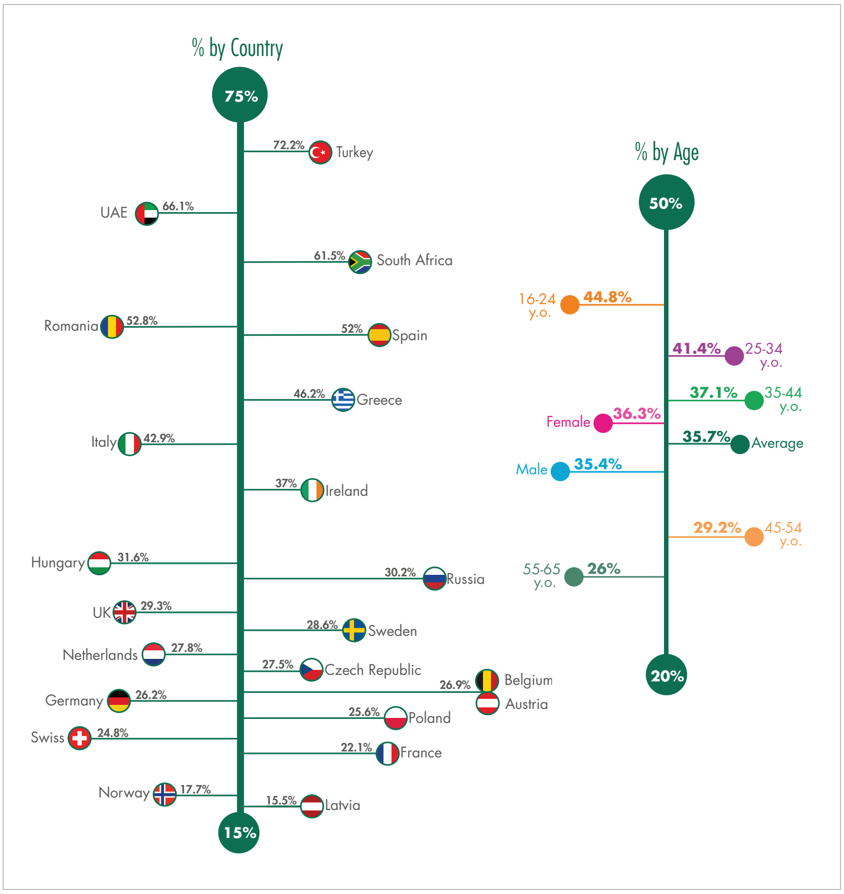

Figure 1: The importance of food and beverage in retail. Source: CBRE, "Food and Beverage in Shopping Centres", 2015.

"Real estate is where we conduct our lives and we like to be together".

- Brian Klinksiek, Heitman

While food and beverage is a major component of the experience economy, it is not the only element. The turn away from purchasing more "stuff" to experiencing meals, music, travel, and adventure with family and friends has crossed cultures and age groups.

Demographic studies have shown that men have become more interested in the experience economy. The Man Cave in Hoog Catharijne in the Netherlands aims to attract young men by creating a place where men can hang out and drink alongside the consumer electronic store Media Markt. Open Friday through Sunday, the Man Cave aims to be an alternative to traditional "boy's night out" venues, as well as a place where men can wait while their female friends and companions shop nearby.

The Man Cave is just one example of how landlords and occupiers are seeking to increase dwell time within shopping centres, outlets, and along high streets by offering customers new ways to enjoy leisure-oriented outlets. Traditional shops offer additional services such as salon and fitness facilities; in some cases adding climbing walls and spin cycle studios. Increasingly, both occupiers and landlords are able to track dwell time and hot spots within both stores and the shopping centre.

CBRE's 2015 survey found that one-third of shopping centre visitors initially came for the food and beverage offering rather than to shop. By surrounding consumers with more colour, sound, and choice, retailers have the hope and expectation that the footfall will increase and that customers will linger and spend more per visit. In addition, they hope that customers will visit retail outlets and centres for a more diverse range of activities than simply shopping.

Several interviewees reported that they are improving the physical amenities within their offerings and upgrading common spaces with improved design, lighting, and furniture, and increased landscaping. Increasingly, retailers are rethinking the role of the shop—that it is not just a place to purchase things, but also an important part of community life. As districts in many cities become more diverse and multifunctional, changes to real estate—such as Regus opening offices in shopping centres—reflect the fact that the distinction between work and leisure is blurring.

As ULI's recent work on good density illustrates, a lively mix of uses, income groups, and populations, and attractive green spaces create a mix of places to live, work, shop, and relax.[2] Retail can play an important role in enhancing the vibrancy of an area, as well as drawing a more active mixture of uses. It can attract people to an area and increase the length of their stay. Retail is often coming to the customer rather than vice-versa. Good places attract people, and retail follows, even to non-traditional locations.

One example is Shoreditch, a vibrant neighbourhood on the edge of the financial centre of London that is renowned as a hub for technology and creative enterprises, as

[2] Greg Clark and Emily Moir, Density: drivers, dividends and debates (London: Urban Land Institute, 2015); Greg Clark and Tim Moonen, The Density Dividend: solutions for growing and shrinking cities (London: Urban Land Institute, 2015).

Boxpark, the world's first pop-up mall, in Shoreditch, East London.

> *"Public places, shopping, and exploring the latest fashion trend allow people to reflect on who they are."*
>
> \- Brian Klinksiek, Heitman

well as a nightlife destination. In recent years, the district has also seen a substantial growth in retail activity. Shops target the tech- and creative-sector workers in the area and capitalise on Shoreditch's popularity as a leisure destination. Many shops and developments in the neighbourhood seamlessly integrate leisure and retail. Restaurants devote some of their floor space to food shops. BoxPark, a temporary pop-up shopping centre that houses small shops in shipping containers on the ground floor, with bars and restaurants above, has been so successful that a second branch is due to open this year in another London neighbourhood.

Who, what and where is the leisure market?

As the economy recovers from the depths of the global financial crisis, consumers are looking for new outlets and new fun. Both food and beverage and leisure are important components of this trend. However, business as usual will not be enough because consumer values are changing. Consumers want something they can connect with and are demanding greater individualisation of goods and services.

At one end of the market, *authenticity, local,* and *fresh* are more than new buzzwords; they reflect a desire for more meaning and a greater commitment to people rather than things. This means more diversity in product offerings and more customisation of the stock of major retailers to meet local markets.

Yet the trend towards individualisation has also increased demand for products that reflect current fashions, but at a low price point. The Irish retailer Primark has succeeded in this area of the market, selling fast fashion in the form of low-priced, virtually disposable garments and accessories. While this appeals to teens and budget-oriented "fashionistas", it is at odds with the values of authenticity and sustainability. Yet, it clearly meets a market demand and provides desired products at an affordable price.

Capturing the leisure market is not just about getting your offering right: retailers also have to capitalise on social media and the proliferation of mobile phone apps, technology, and changing demographics. Mobile-phone technology allows people to instantly determine where friends and families might be in order to share a quick meal or drink or enjoy a new movie. Tablets allow people to share space while each person can remain engaged in his or her own pastime. Millennials and their parents will spend more money than ever in 2016 on streaming videos, games, and music.

These two demands—to indulge individual tastes and preferences while still sharing space and being together—are driving change and innovation in retail offerings. At Whiteley's shopping centre in West London, The Lounge cinema offers a new experience for movie-goers. For over-18s only, The Lounge offers a luxurious and intimate cinema experience, with small cinemas of no more than 50 seats and large, comfortable seats. Customers may order food or drinks at any point during the film, and have them delivered to their seats by waiters.

In response to the changing demands outlined here, several interviewees noted that, shopping centres are increasing the space dedicated to food and beverage and leisure. This is expected to increase further over the next couple of years. This shift capitalises on the dramatic upturn in food and beverage, and restaurants of all types.

Interior of The Lounge cinema. Source: Whiteleys

Reflecting this trend, large restaurants are increasingly taking up space in shopping centres. For example, at the end of 2015, a 1,138-square-metre, two-level Vapiano restaurant opened in the De Heuvel shopping centre in Eindhoven, Netherlands. CBRE reports that in the new Unibail-Rodamco shopping centre in Wroclaw, Poland, which will open in 2017, 18 per cent of the space will be devoted to food and leisure. In the Trinity shopping centre in Leeds, Land Securities dedicated over 20 per cent of the space to dining at its opening. In Barcelona, the Unibail-Rodamco Glories project incorporates 3,200 square metres for a new food hall with 750 seats.

This phenomenon crosses cultures and borders. Eataly, an Italian food hall concept store that integrates restaurants with food shopping and educational activities, has 11 outlets in six countries. All these examples integrate social media with their stores, keeping customers up-to-date on new events, the latest menu offerings, tastings, cooking classes, and new cookbooks on offer. These tools help keep customers engaged and connected to the brand and inspire more visits.

Get on board: retail is moving fast

Retail has always been oriented to changing trends, fashion fads, and cultural shifts. With pervasive media and omni-channel outlets, the sector is moving faster than ever in multiple directions.

The public, particularly the millennial generation, is accustomed to instant news and immediate pictures and texts from friends and family and will bypass the old and boring for the trendy. While early adoption of new service models and technologies can be seen as increasing risk, the leaders are believed to have an advantage. Occupiers are racing to remain ahead of the curve, constantly setting forth new offerings. One interviewee reported that “innovation managers” within large companies are deemed so important that they now report directly to the CEO.

If targeted appropriately, new brands and concepts in retail can catch on quickly. Smiggle, an Australian concept store offering stationery, accessories, and school supplies targeted at younger customers, has grown rapidly since entering the UK. The chain opened its first UK stores in February 2014, and as of January 2015 has 42 stores around the country.

It is not only fashion and new-concept stores that are moving fast. Every aspect of retail is on the express train. Amazon now offers same-day delivery in parts of London. Other retailers are experimenting with fast-pay kiosks that allow a customer to make a selection and pay for it without interacting with a clerk.

Markets are being redefined: the good get better, the bad get worse

Findings from the interviews revealed that the gap between the top tier and value-oriented retail is sharpening.

The A locations and centres are continuing to dominate and become more appealing. Occupiers are willing to pay top dollar to be among the best. The B centres and locations are either moving up or down but have potential. At the other end of the scale, interviewees held that many C and D locations are in trouble and may ultimately have to be repurposed or torn down. Nevertheless, companies are succeeding at both the higher and lower end of the market.

A more challenging place to be can be the midmarket. Unless mainline department stores are fully internet savvy and can appeal broadly to an array of customers, they lose out at both the upper and lower end. Many interviewees cited favourably John Lewis, a leader in midmarket retail that is exploring both new concepts within the stores as well as new locations. The company has successfully integrated its online and in-store experiences and has added new concepts such as integrating new food and beverage concessions into its stores.

At the upper end of the market, ambience, place, service, and enjoyment trump price. The public realm and quality of the space are important and will significantly contribute to increased dwell time, inducing people to spending more money. The power of place can be a significant draw. Even in communities with declining populations (so-called shrinking cities), urban districts can still be lively, and an A location can dominate its own catchment area.

A fast pay kiosk in McDonalds.
Source: www.flickr.com/photos/stephencannon

“Innovation is happening all over the place. There is now an innovation pipeline within many of the larger companies.”

- Sean Curtis, UK-based consultant

Dresden, Germany, offers an inspiring example of a city that has increased its market share by capitalising on the dense, mixed-use character of its city centre. Lovely architecture, cobbled streets, and well-known restaurants and pubs still have appeal in older, second-tier cities. Tourists, including domestic culture tourists, find enjoyment in day trips to city centres, browsing and getting to know local history. Special events and new-concept retail with strong food and beverage offerings can make older downtowns healthy.

While the prime locations attract growing numbers of customers and increased business and can accommodate a variety of price points and experiences, the value-oriented market is also changing. Convenience and commodity-oriented, price-sensitive shopping is likely to continue moving to warehouse outlets and the internet. When it comes to purchasing basic commodities such as household staples, consumer criteria are often price and convenience, not service, fun or amenities.

Consumer behaviour: more change is yet to come

At all price points, customers have the ability to be very well informed and selective because of the internet. Shopper engagement is a double-edged sword with the potential to enhance or damage a brand. Cell phones and apps allow consumers to readily compare prices, get current ratings on restaurants and pubs, and write a review of their own. Apps also allow people to get information on the sustainability of companies and products.

Demographics continue to drive change in retail. In Europe, members of generation Y, or the millennials, constitute about 24 per cent of the population. Millennials are now in their 20s and early 30s, marrying, forming their own households, and having children. Many have now completed their education and are earning significant incomes. As such, they are in their prime purchasing years. With the improvement in the economy, millennials now have more spending choices to make.

The consultancy of A.T. Kearney identifies the five stages of the "shopping journey":

Research → Test & trial → Purchase → Fulfillment → Return

Source: A. T. Kearney

Gen Y is not evenly distributed across Europe. Millennials make up 28 per cent of the population in Poland, but only 19 per cent in Italy.[3] While millennials are having a strong impact on the rapid changes in the retail sector, overall Europe's population is aging, with older people making up an increasing share of the population.[4]

Given these demographic trends, youth-oriented sales markets may be saturated and senior-oriented markets underserved. The senior market is expected to require its own retail shops and services. Given these demographic shifts, stores, services, and online retailers are likely to begin catering to older hands with simpler clothing closures and to offer sensible shoes and exercise tools that assist in balance and mobility.

Big data offers potential for improved asset management

The full integration of the internet is a baseline requirement for successful retail, helping expand sales in a number of ways:

- Online, shoppers can locate what they could not find in a shopping centre.
- Mobile shopping attracts a younger, more female population.
- Click-and-collect locations often offer accessories to complement online purchases.
- Easy returns allow shoppers to purchase several items and return ill-fitting or unwanted items.

It is an evolving science to fully understand and use each stage of the shopping experience to help customers in an efficient manner while remaining respectful of privacy concerns and sensitive to over marketing. Even within the expanding click-and-collect trend, good retailers can draw in that customer to not just pick up the item ordered online, but also to experience a visit with a personal shopper to accessorise an outfit or join a friend for lunch.

Occupiers can sift data and be prepared to "up-sell" customers as they come to shop or collect, offering accessories, a café experience, or an additional item on sale. Similar to Amazon's technique of telling shoppers "customers who bought this item also bought, . . ." the click-and-collect trend requires good data mining and a better-trained sales force with good customer support to maximise sales potential.

Beyond individual retailers, the increasingly availability of data is also changing asset management. Asset management once dealt with making decisions about when to buy and sell, occupier mix and flow, and a variety of performance measures. Today, improvements in the gathering and analysis of data offer new ways to monitor asset performance. Occupiers can benefit from footfall data for the entire centre, dwell time in certain locations, and interest in special promotions and events. It is now possible to accurately track sales daily, weekly, and monthly.

In the fast-paced world of retail, these data can assist both owners and occupiers.

[3] Stokes, Bruce, Who are Europe's Millennials? (Washington, DC: Pew Research Centre 2015)
[4] European Union, Eurostat http://ec.europa.eu/eurostat 2015

They can quickly identify "hot" and "cold" locations, which kiosks and pop-ups attract attention, which colours draw more buyers, and which sale items demand a purchase. This can assist in rapid action to expand those hot items to maximise sales, and correct or eliminate slow sellers.

Transparent sharing of data between owners and occupiers can be a powerful tool for improvement. Active management by the owner team can assist occupiers in improving performance and, if necessary, can remove poorly performing occupiers more quickly within the lease parameters. As occupiers move into new lines of business, owners and asset managers are asked to change their role. In an effort to boost profits, many occupiers are now moving into food and beverage lines, adding cafés and grab-and-go, ready-to-eat meal selections.

Rather than serving as transaction-based brokers, real estate professionals are serving as advisers and consultants and prowling in the marketplace for new concepts and ideas to bring to both occupiers and owners. Closer alignment among retailers, asset managers, and owners can benefit all.

New technology is assisting in data gathering and ultimately will affect business models. The International Council of Shopping Centers (ICSC), in its 2015 study Exploring New Leasing Models in an Omni-channel World, noted that new technologies, such as wi-fi and beacon tracking, can monitor customer flow and generate real-time heat maps across shopping centres. Through these technologies, retailers can calculate each store's contribution to centre profitability. Detailed tracking also allows retailers to identify the primary beneficiaries of their stores' drawing power.

New retail, new leasing models?

Interviewees report that fashion sales have been declining over the past five years. While consumer confidence is improved, the mix of purchases has changed. As noted here, spending on food and beverage, personal services such as health and beauty, and experiences such as leisure activities, travel, and adventure continue to rise.

In particular, the fast pace of change may conflict with long-term leases. If current occupiers are not market savvy and are losing market share, the ability to replace them quickly may be hampered by out-of-date leasing relationships. Pop-up stores and small concept stores may be attractive to test new ideas, but landlords must be willing to carry greater risk for non-creditworthy, unproven tenants.

Some owners and retailers are considering adjustments to the standard leasing model with a higher component of variable rent and a lower base rent. For high-concept stores, this distributes the risk and allows the owner to potentially capitalise on success and the retailer to ease early cash flow in the start-up stage.

Lease terms are expected to shorten and become more flexible. Non-compete clauses that restrict co-tenancy and tightly define goods on offer are changing. In addition, owners are seeking different leasing models that more accurately reflect rapidly changing economics: In the internet age, where is the point of sale? If a customer does research and test and trial in a store but buys online, should any credit be given to the store site? What is the best way to calculate percentage rents based on sales and returns for internet transactions?

Conclusion

Several key conclusions stand out from this report:

- Whereas in the past shopping was the primary purpose of trips to retail destinations, today shopping may be secondary to social experiences, food and beverage purchases, or leisure activities.
- The distinction between retail and leisure is blurring. What constitutes retail and what constitutes leisure increasingly overlaps. This blurring is a response to customer demand for "experiences" and aims to increase the in-store dwell time of customers. Some types of retail no longer exist without leisure (such as in-store coffee shops). Customer engagement, flexibility, and interaction are critical to success.
- An alignment between retailer and manager/owner is increasingly important. Data sharing can be a concrete step toward alignment and provide both parties with opportunities for improvements.
- The owner/manager has to become the ultimate "deliverer of the overall experience", making sure all pieces fit together. Where such talented individuals come from and how they are compensated and retained will continue to change in the next few years.

Looking ahead

Going forward, it will be important to trace the impact of the increasing integration of leisure and retail on rents and valuations. This will be a key research topic for ULI Europe's Retail and Entertainment Council in 2016. The best A locations will command premium rents, and top occupiers will be willing to pay the price for access to the top-tier markets. Urban-centre locations with a mix of uses and new office and residential product, as well as good access and transport, will strengthen. The challenge of how to increase value in C and D locations will inspire new ideas and will be worth watching for new models and startups. New rent structures and leasing models will emerge as some food and beverage occupiers take over positions of dominance as the desirable space holders. Mid-market department stores will redefine themselves with varying success.

ULI's Emerging Trends in Real Estate®: Europe 2016 ranked high street retail as having the most positive investment prospects for the current year of all sectors. Far from declining, retail offers creative and exciting prospects—disruptive, but sure to provide lessons for other sectors as well.

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The Urban Land Institute (ULI) is a non-profit research and education organisation supported by its members. Founded in Chicago in 1936, the Institute now has over 36,000 members in 75 countries worldwide, representing the entire spectrum of land use and real estate development disciplines, working in private enterprise and public service.

ULI has been active in Europe since the early 1990s and today has over 2,200 members across 27 countries. It has a particularly strong presence in the major European real estate markets of the UK, Germany, France and the Netherlands but is also active in emerging markets such as Turkey and Poland.

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The success of ULI's Product Councils relies on the active participation of our senior executive full members. If you would like to share your expertise and be involved in shaping the future of real estate in Europe, please contact the Co-Chairs Will Rowson at will.rowson@hodesweill.com or marije.braam@cbreglobalinvestors.com, or Clare Game at clare.game@uli.org for information on applying to join a Council.

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