



Ingredients for Success

How food, drink, and leisure keep shopping centres competitive

ULI Retail and Entertainment Product Council

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Contents

Executive summary	1
Introduction	2
Methodology	3
Analysis of the sample	4
The contribution of leisure and F&B	5
Differences between leisure and F&B	8
Conclusion and next steps	11



vi | Ingredients for Success

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Executive summary

As the leisure and food and beverage (F&B) sectors continue to play a role in the success of shopping centres coping with the rise of e-commerce, this report examines the initial impact from a quantitative and qualitative perspective.

It is becoming increasingly important to understand the business case for expanding leisure and F&B in shopping centres, and whether this strategy is helping defend sales in an increasingly competitive market, or if it can provide value growth on its own terms.

This research follows on from an Infoburst publication by ULI Europe called, 'Eat, Drink, Dwell: New Concepts in Shopping and Leisure', which looked at some of the changing offers in retail, particularly in the leisure and F&B sectors.

This publication was supported by the ULI Retail and Entertainment Product Council, which wanted to build on this qualitative work with an initial examination into some of the quantitative arguments for increasing leisure and F&B.

The results show that the F&B sector is the clear front-runner in the retail industry's shift to include more leisure options. As well as being a safer option than more complicated leisure concepts, F&B has emerged as a stronger partner to support retail sales than other types of leisure. A centre is now seen as weaker if it has no F&B.

In a survey of ULI Retail and Entertainment Council members as part of this research, F&B stood out when it came to contributing to the wider goals of the shopping centre. F&B was ranked as 7.7 out of ten when it comes to supporting the success of retailers in the shopping centre compared with leisure, which was ranked as 5.6. In terms of contributing to rental income, F&B was ranked as a 6.4 by respondents, with leisure as 4.9.

Overall, retail sales in the sample of eight shopping centres analysed for this study increased 6.2 per cent with the addition of leisure and F&B, and retail sales per square metre grew by 1.2 per cent.

Although the impact of leisure and F&B cannot be isolated in these figures, the centres have made significant investments in the sector and this 'halo' effect is a first indication that the sector is contributing to performance.

Views from interviewees were mixed on whether those figures would improve in the long term, as some believed they should be higher. Others said that any gain was a bonus because the minimum requirement was to preserve existing sales at this changing time for shopping centres.

The research also indicated that estimated rental value (ERV) growth and minimum guaranteed rental (MGR) growth for leisure and F&B showed strong increases at 15.8 per cent and 11.3 per cent, respectively. This result points to the contributions that leisure and F&B make to overall performance. Interviewees reported that valuers no longer differentiate the sector's contribution to yield compared with retail uses in shopping centres.

Overall, survey respondents saw both leisure and F&B as positive in meeting the shopping centres' softer targets such as increasing dwell time—the time a consumer spends in a centre—and footfall. Footfall across the sample increased 5 per cent, a result that was viewed as positive against a general downward trend for the industry.

Although F&B came through as an easier addition to centres, leisure was considered more complicated and a greater risk for centres taking on larger units at lower rents. The scope of leisure added to this issue. It could mean something as simple as a children's playground, which encouraged visitors to return regularly through to destination leisure operators such as Kidzania and Legoland, which needed larger catchments to satisfy the fewer number of repeat visitors.

However, this perception was different in some parts of Europe, with southern Europe, central Europe, and Turkey depending on leisure as a main driver for centres.

Although the move towards leisure and F&B started as a defence against online shopping, interviewees said the shift has evolved into a bigger effort to meet changing consumer needs. Shopping centre owners now recognise that leisure and F&B have a crucial role to play in proofing centres and ensuring they remain competitive in the future.

Introduction

The ULI Retail and Entertainment Product Council in Europe commissioned this report to better understand how important the role of leisure and food and beverage (F&B) is for shopping centres in light of the arrival of e-commerce.

Online shopping has resulted in a period of massive structural change for shopping centres, but the industry is learning to adapt. Owners have begun to defend their position in the wake of changing consumer habits by offering a combination of retail and entertainment.

Overall, operators are looking to leisure and F&B to help their shopping centres achieve this aim in three broad ways:

- To offer experience to consumers, a crucial differentiator from the unemotional experience of online shopping
- To widen the range of reasons and increase the number of times that consumers visit centres
- To provide reasons for consumers to extend their visits, increasing dwell times and potential spending in the centres

Those three reasons appear to be instinctive and logical next steps, but they remain untested. A lack of evidence is available to help understand what leisure and F&B are adding to shopping centres in terms of performance, as well as to softer targets such as dwell times and footfall.

In early 2016, the ULI Retail and Entertainment Product Council supported the publication of an Infoburst by ULI Europe called, 'Eat, Drink, Dwell: New Concepts in Shopping and Leisure', which looked at some of the changing offers in retail, particularly in the leisure and F&B sectors.

The product council wanted to continue to look at this issue and was pleased to receive a grant from the ULI Charitable Trust to undertake some preliminary research. The council's aim was to make some first-step quantitative analysis for the business case for leisure and F&B and its impact on shopping centre performance.

The research was supported by several of the leading shopping centre owners in Europe, which between them, manage or own around €61 billion of retail property.

These companies provided financial data from eight shopping centres in Europe that had recently upgraded or extended their property to include additional leisure and F&B. This financial data was then analysed by JLL to provide the quantitative basis for the research. Andrea Carpenter, a consultant, coordinated the research and undertook interviews to gain feedback and additional qualitative information.

Starting to build a body of evidence is important because the role of leisure and F&B looks to be a crucial component in the future success of shopping centres. The sectors are expected to provide a new significant stream of rental income as well as provide additional benefits, such as attracting a wider range of consumers for longer visits and bringing a new sense of vibrancy to centres.

Taking a fresh look at this topic at this time is essential because the track record with leisure—particularly outside of F&B—has been mixed. Leisure operators typically



require larger units at lower rents, resulting in greater risks for shopping centre owners. Leisure elements also have been difficult to analyse and value when it comes to understanding their contribution to a shopping centre's performance.

If shopping centres are going to have a renewed push to include leisure and F&B, the industry requires a better understanding of what these sectors offer shopping centre owners in a changing retail environment.

Definitions

It is important to understand what is meant by leisure and F&B. For this study, the following definitions were used:

Leisure: outlets for onsite activities, such as cinema, gym, casino, bowling alley, children's play areas, museums, and galleries.

Food and beverage (F&B): outlets for onsite consumption, such as coffee shops, restaurants, bars, and food and speciality outlets that include ice cream and yogurt shops.

Methodology

This research was based on the analysis of eight shopping centres in Europe that had recently upgraded or extended their centres to include additional leisure and F&B.

Shopping centre owners were asked to identify relevant schemes from their portfolio where leisure and F&B had been added in the past two to three years. They were then asked to fill in an Excel spreadsheet of financial data about their schemes for the time periods before and after the addition of the leisure and F&B.

The requested data included basic information about the size and breakdown of uses in the centre, as well as data on rents, sales, and vacancy. In addition, the shopping centre

owners were asked to supply, where possible, footfall and dwell times. The study is based on the information received with an analysis of this data undertaken by JLL.

Although the financial information provided a backbone to the report, the product council believed it important to overlay this quantitative approach with qualitative input. The financial data provide good insights, but because leisure and F&B are an emerging trend, the information is based on a short time series and a small sample size.

Therefore, once the results were analysed, they were compiled for discussion with a steering group made up of relevant industry experts.

Feedback was gained on the results and additional comments obtained on the trends around leisure and F&B in shopping centres through a conference call and separate telephone interviews.

In addition, a mini survey based on the results and the main trends on this topic was sent to the ULI Retail and Entertainment Product Council, which comprises 33 members. The response rate was 51 per cent.



Analysis of the sample

The sample group comprised eight shopping centres with a current total gross lettable area (GLA) of 546,085 sq m, with the size of the centres ranging from around 23,000 sq m to 111,000 sq m. They are located in the UK, France, Poland and Spain and are all considered dominant shopping centres within their wider location.

Looking at the sample group overall, the increases by percentage of GLA to leisure and F&B are small (figure 1). Leisure increased to 8.9 per cent of GLA from 7.9 per cent while F&B grew to 7.9 per cent from 6.8 per cent. However, these levels are in the context of the overall GLA increasing by 5.7 per cent, so in nominal terms a total of 15,740 sq m of leisure and F&B was added. Of the GLA increase across the sample, 49 per cent was leisure or F&B.

Shopping centre operators were asked to contribute case studies in which they had increased and upgraded the leisure and F&B offer. The selection by owners in itself provides an interesting insight into how they are approaching this trend.

The increases in floor space to leisure and F&B across the sample are fairly evenly split with an additional 7,750 sq m to leisure and around 8,000 sq m to F&B. This additional floor space translates to a 19 per cent increase in leisure space and a 23 per cent increase in F&B space. However, across the sample, the strategies for these two sectors are mixed.

Figure 1: Breakdown of changes to leisure and F&B by percentage of gross lettable area (GLA)

	Total GLA sq m	Total F&B sq m	% GLA	Total leisure sq m	% GLA
Before	513,743	34,933	6.8	40,619	7.9
After	546,085	42,930	7.9	48,363	8.9

All eight centres added F&B in nominal terms, with the increase being significant for five of the centres at between 900 sq m and 1,880 sq m. In all but one case, the addition resulted in percentage point increases of GLA ranging from 0.1 to 4.8.

For leisure, only four of eight centres increased leisure space by size. These ranged from 413 sq m to 2,787 sq m. Three centres did not add or increase leisure while one decreased its leisure floor space by 2,800 sq m. That centre turned over two-thirds of its previous leisure space to F&B.



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The contribution of leisure and F&B

The research sought to examine what owners are looking for from leisure and F&B, and whether their expectations are being met, specifically,

- Is this trend a defensive measure against losing sales to online shopping? If so, owners would expect leisure and F&B to be fully protecting or even enhancing sales and rental performance.
- Is there a pay-off level at which leisure can bring additional footfall and increase dwell time overall and therefore result in becoming less critical for the financial results of the centre itself?

As part of the survey conducted for the research, respondents were asked what they were looking for from leisure and F&B. The results showed that those softer targets were where respondents believed the greatest contribution could be made. Figure 2 shows that the ability of leisure and F&B to increase dwell time was ranked at 8.7, closely followed by increasing footfall at 8.3 out of ten.

The lowest-ranked aspect that leisure and F&B was expected to influence was, at 6.9, the important outcome of increasing overall rental income, followed by increasing overall rental sales, at 7.4 out of ten. In fact, those relatively high rankings mean that operators still place strong importance on these factors.

However, it raises a question about whether the industry is still weighed down by the challenge of determining what benefits leisure and F&B can bring to centres, with the owners still underestimating the sectors' potential contribution by focusing on easier targets such as dwell time.

During the interviews, it was clear that online shopping was a driving force behind the adaptations but that the overall leisure and F&B strategy has now evolved into a wider consideration based on consumer needs. 'Malls need to meet their own relevance to the public, and the public is changing. It is the internet experience that is changing that', said one respondent. 'They need to find experience in malls, and they need food offers that retain relevance in the age of the internet'.

Going a step further, one interviewee suggested that the addition of leisure and F&B is changing shopper behaviour: 'You are touching their time budget. So if leisure is included, they know they have to spend more time there [and] so they are relaxed for their shopping centre visit. Therefore, they are more willing to spend'.

Leisure and F&B are no longer a 'nice to have' way to offer experience in centres to counter online shopping. Instead, they are seen by interviewees as future-proofing, and an essential component to remain competitive. 'Leisure keeps you in the game. You see that in play in more prominent malls, while others struggle', one interviewee said.

Although the sample of shopping centres in the data analysis was diverse, all of the centres were prominent or dominant schemes in their locations. That observation supports the view that the addition of leisure and F&B in many cases had partly been an effort to protect their position in the market.

Figure 2: Responses to the question: What is the most important contribution leisure and F&B can make to shopping centres on a scale of 1 to 10?



One interviewee said that upgrades incorporating leisure and F&B were happening right across the company's portfolio because any centres not suitable for that treatment had already been sold. The ultimate value that leisure and F&B could add was 'happy shoppers'.

In all these cases, interviewees emphasised that leisure and F&B had to always be part of a holistic approach and tied into a good offer with active asset management and marketing.

Impact on retail sales

Although the survey showed that the ability for leisure and F&B to have a positive impact on retail sales was a lower priority, that outcome would be the ideal if the sector is to be considered successful.

The potential for this 'halo effect' was studied in the analysis of the shopping centre sample. The results of the data analysis showed that retail sales in the sample were up 6.2 per cent across the centres. However, when broken down to sales per sq m, the increase was only 1.2 per cent, which was not as high as some interviewees had anticipated. The result was seen by one interviewee as 'not a huge standout figure, but in the right direction'.

The breakdown takes into account that some shopping centres added further retail floor space as part of their changes, but it also needs to be considered that fewer leisure operators provide sales figures.

Figure 3: Affordability ratios for retail and F&B rent to sales

	Retail rent to sales ratio, %	F&B rent to sales ratio, %
Before	9.6	13.7
After	10.2	13.9
Percentage-point change	61 basis points	23 basis points

It may therefore be too soon to draw conclusions from the sample's track record to enable an understanding of whether this is the full impact of the additional leisure and F&B. It may also be that the initial boost to retail sales was lower and that further positive impact will come through more gradually. That theory would align with the view that shopping centre owners need to fully re-establish their business following any refurbishment or extension.

However, one interviewee suggested that any increase meant that these improvements were already working, as the minimum target is to secure existing sales. 'In our central European markets, we've had a slight increase [following the works] and if we hadn't done that, we would be faced with a decrease', the interviewee said.

Affordability of rents

The analysis also looked at the affordability of the rents before and after the addition of leisure and F&B (figure 3). Overall, there has been a 7 per cent increase in GLA in the sample and a 15 per cent increase in rent. However, the small percentage point changes in rent-to-sales ratios for both retail and F&B (61 basis points for retail rent to sales and 23 basis points for F&B rent to sales) indicate that owners have not pushed rents aggressively after completion of the works and have stayed within the boundaries of affordability. No equivalent figures for leisure are available because fewer operators declare their sales figures to owners.

However, one interviewee said that those results indicated an opportunity lost and that the completion of such improvements is a time to push for higher rents: 'The [retail] business is not ambitious with average returns. Retailers want to come to the extension, which is lower risk than [locating in] new greenfield malls. It is a standing asset that has already done well'.

Another interviewee agreed and said that those elements should give owners more of a chance to push the shopping centre as a destination. 'This is another reason that we have to prove [it affects] sales', the interviewee said.

Impact on yield from leisure and F&B

The data analysis also looked at estimated rental value (ERV) growth and minimum guaranteed rental (MGR) growth for leisure and F&B, measures which can give some insights into performance and future impacts on yield.

The figures show strong increases for both, with ERV up to 11.3 per cent and MGR up to 15.8 per cent (figure 4). Those figures indicate that leisure and F&B made a contribution to overall performance, which could be reflected through investment yields.

Overall, that result appears to be part of a positive shift for leisure and F&B with valuers now seeing that investors are not differentiating the sectors' contributions to yield compared with retail. 'Historically, leisure yields were higher, with a thinner market and lower covenant strength, but as the market has matured we have seen that valuers no longer apply a different yield', said one interviewee.

That was particularly the case for F&B. 'It is now easier to take retail out and put in F&B and you are not going to get a softer yield as a result', the interviewee said.

Dwell time, footfall, and vacancy

The data analysis also looked at changes in dwell time, footfall, and vacancy as set out in figure 5. Not enough centres could supply dwell time figures to be aggregated but, where given, they did increase.

Some interviewees found the footfall increase important, considering the general downward trend in footfall that shopping centres have seen. In some cases, the centres may have experienced declining footfall before the refurbishment. Although the impact of leisure and F&B cannot be isolated, the analysis

provides further evidence that such improvements support those softer targets, including dwell time and footfall. 'We do see it in our numbers and fairly rapidly. During the first year we see it in more turnover and footfall. It's a worthwhile investment. It's driving footfall and for people to stay longer', one interviewee said.

The results of the survey show that 83.3 per cent of respondents think the increase was in line with expectations (figure 6). That result could partly reflect the view that leisure and F&B should at the very least be delivering on those softer targets such as footfall.

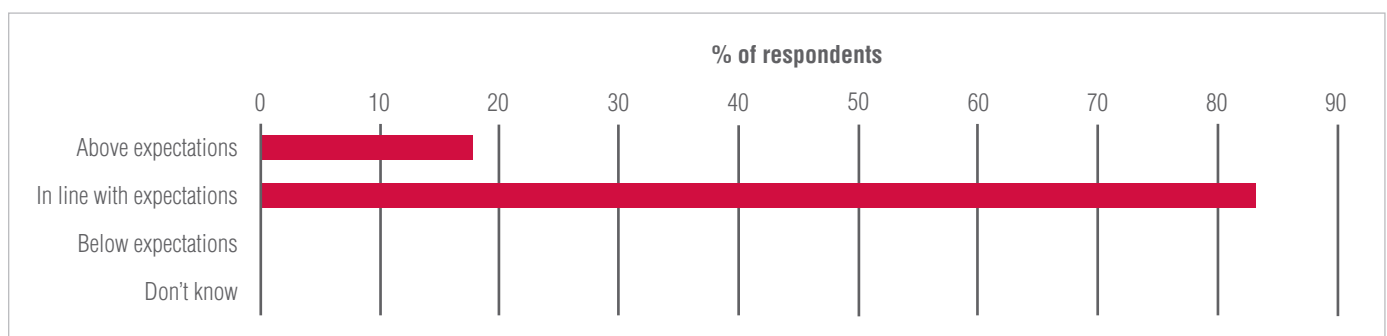
Figure 4: Percentage growth in MGR and ERV after addition of leisure and F&B

	% growth
MGR	15.8
ERV	11.3

Figure 5: Changes in footfall and vacancy rates after addition of leisure and F&B

	Change
Footfall	5% increase
Vacancy rate	95 basis point decrease

Figure 6: Views on whether the 5% footfall increase was in line with expectations



Differences between leisure and F&B

So far in the analysis, this research has considered leisure and F&B to be interlinked. However, the results of the research show that the role and potential contribution of the two sectors are different.

This result was evident in the survey, with respondents perceiving F&B as the greater contributor both to softer targets, such as dwell time, and to bottom-line targets, such as supporting or increasing rental income and overall retail sales (figure 7). The relative strength of F&B was highlighted in interviews, where interviewees described it as the ‘new anchor’ for shopping centres, whereas they still saw leisure as a more challenging element.

This may partly be because of the range of leisure activities available and the different purposes they serve. For example, destination leisure would draw crowds but fewer repeat visitors while cheaper attractions such as

playgrounds or indoor trampolines might support dwell time and promote repeat visits.

The results of the survey of product council members reflect these different expectations for F&B and leisure. In both cases, the sectors were most highly ranked by respondents for their contribution to dwell time and footfall. On a scale of importance from 1 to ten, F&B was ranked 8.4 for dwell time and 7.8 for footfall, whereas the rankings for leisure were 7.1 and 6.7, respectively (figure 7).

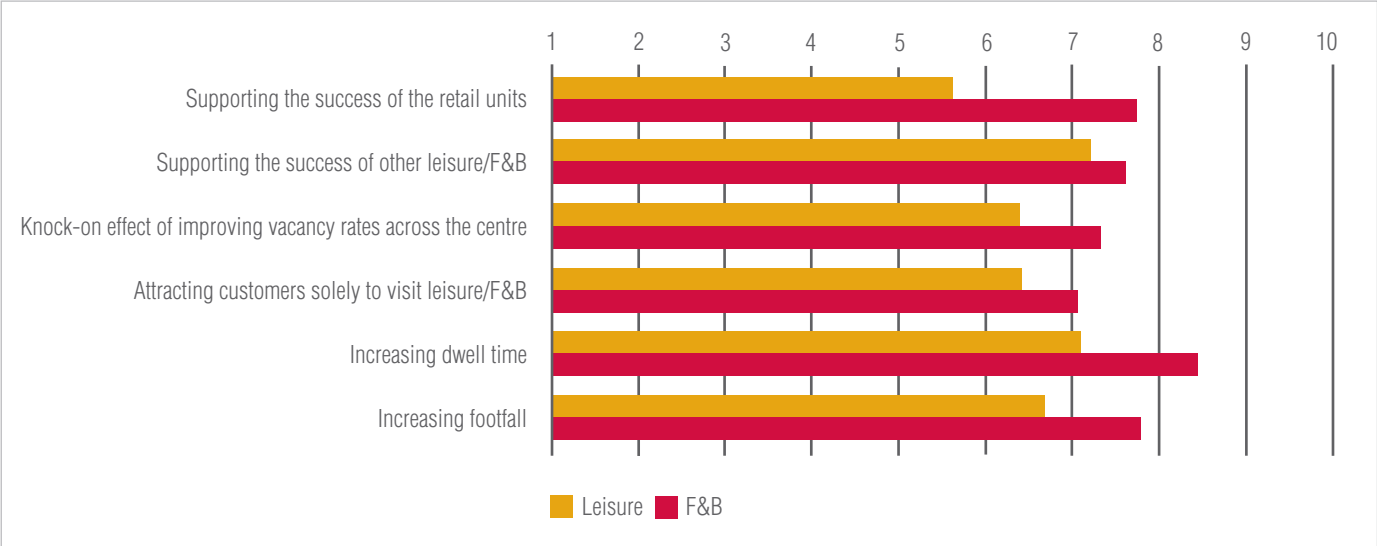
However, F&B stood out when it came to the perception that it contributes to the wider goals of the shopping centre. F&B was ranked 7.7 while leisure was ranked 5.6 in supporting the success of retailers in the centre. In terms of contributing to rental income, respondents ranked F&B at 6.4 and leisure at 4.9.

Food and beverage

F&B has become the natural go-to solution for owners looking to increase experiences offered in shopping centres. Interviewees said F&B had emerged as the safe option—the simple view being that everyone has to eat and drink—and its effects and returns are also better understood than those of leisure.

In some cases, F&B was strong enough to become a new type of anchor to draw in additional people. In one shopping centre in Turkey, a failing DIY retailer was successfully replaced with a food court that was predominantly for dining out rather than for fast food. ‘They have basically seen retail demand grow, and discussions [with potential tenants] are becoming easier because of F&B’, said an interviewee.

Figure 7: Responses to the question: How successful is leisure/F&B in achieving the following contributions, ranking on a scale of 1 to 10





Interviewees said the success resulted partly because F&B continues to profit through its synergy in centres with its traditional leisure partner but it has also become stronger as a standalone sector and is showing new synergies with retail outlets.

That view, however, does not come through strongly in the survey. The results show that F&B as the sole reason for visitors to come to a shopping centre is ranked by respondents at 7.7 versus leisure at 7.2 (figure 7). When it comes to supporting the success of leisure, F&B is seen as slightly better in its contribution to leisure's performance at 7.7, rather than vice-versa, at 7.2.

One interviewee said that it is higher risk not to combine F&B with leisure. 'How many table settings can you have? When the mall closes you don't have a reason to stay late. A restaurant next to a movie theatre is two extra settings. Just putting in a restaurant by itself limits settings'.

But unlike leisure, F&B is now a necessary rather than an optional element to a shopping centre. 'A centre is now seen as weaker without F&B. It provides a certainty of income', said an interviewee. It also helps that F&B rents are now more competitive and are often higher than those of the units, such as hypermarkets, that they have replaced.

That being said, interviewees said that F&B had to be done well to perform. 'The offer needs to be there all times of the day', said one interviewee. 'There needs to be a balance between grab and go, and options with seating. To work, they need to be maximising their budgets at all times of the day'. Traditionally, food courts have been in lower levels with upper levels set aside for retail, but shopping centre owners have become more confident to change this arrangement. The owners are aware of the need to provide the right seating and terraces to offer a place that's conducive to meeting.

F&B can be more profitable, but some of the new approaches also bring new risks. 'There can be a significant fit-out cost, and seated restaurants have a higher rate of bankruptcy than express food. It's not just the [risk of] fit-out costs, it's the fickleness of human preferences', said one interviewee.

Another pointed out that successful international food chains were small in number, leaving the owners to rely substantially on local F&B offerings, of which there was 'not a full list'.

That thinking leads back to proper centre management. 'Restaurant operators such as Vapiano have been positive about mall environments, but the mall operators have to work hard as well. Asset management, marketing, it all comes together', an interviewee said.

Leisure

Leisure has traditionally been a more challenging component of shopping centres. It takes up larger units often on longer leases but with lower rents. In addition, the concepts are difficult to get right and can date quickly, increasing the risk further. A practical issue facing shopping centre owners is that fewer leisure operators declare sales, giving the owners less understanding of how different models work in centres.

Leisure has not seen the same evolution in its role as F&B has. In the sample, three shopping centres originally had no leisure, and only one of those chose to add a new leisure element. Four centres had increases in terms of square metres, but three of those resulted in an overall decrease in the percentage of floor space dedicated to leisure.

Leisure does not have the same overall 'must have' quality because it is more challenging to get it right, according to interviewees.

Successful concepts tend to be large investments such as Legoland and Kidzania, which may then be perceived by consumers as expensive, even if they offer a destination draw. They are also only viable in centres with large catchments over about 5 million people.

If you do not meet that catchment criteria, there is no middle ground. 'If you have a strong leisure brand, it can be a long-term thing. If you have more poor-quality copycats, it doesn't work, or only in the short term', one interviewee observed.



© LegoLand

The overall feedback is certainly that leisure is more hit or miss, with little margin for error. If you get it right, it works well, such as with one aquarium in Istanbul. 'The attraction was an immediate positive impact on retail and turnover. With family trips at the weekend and school trips mid-week, things went fast', said one interviewee.

A cultural dimension is certainly relevant, with centres in southern Europe, central Europe, and Turkey seeing leisure as much more of a priority over the functional shopping elements. 'In Turkey, shopping centres are all to do with leisure, just a place to spend time. It is a very different need for leisure, and it is extremely high as shopper behaviour is very different', an interviewee said.

But the sector is thin when it comes to new operators and ideas, and the concepts have to be tailored for the catchment. A few different operators are emerging such as Bounce, the trampoline company, or temporary leisure such as ice rinks in the winter, but many owners are reluctant to experiment beyond the regular cinema staple. Concerning larger destination options such as ski slopes, interviewees were not always convinced that those were the real driver for footfall.

Leisure is not seen as providing the same number of synergies as F&B. 'A cinema is very important for F&B but not to retail sales', said one interviewee.

Overall, leisure has not shaken off its traditional 'challenging' industry image, including among the investors. 'I don't think investors appreciate it properly', an interviewee said. 'They are nervous about everything that is not long-term fixed rents, but long-term fixed rents don't exist any more'.

All of these complications result in lower expectations for leisure, even though it is an important driver in a shopping centre's success. 'We are happy if leisure pays, but if it brings families to shopping centres, it is more indirect', an interviewee said. As an example, leisure can be something as simple as providing good playground space for kids.

Conclusion and next steps

This report provides only an introductory glance at the issues raised when including leisure and F&B in shopping centres, a relatively new and evolving but increasingly crucial topic for the retail industry.

This initial study points towards the complex relationship between shopping centre, retail, F&B, and leisure operators, and of course the public within the specific catchment. It is the consumer who ultimately decides which centres flourish, stagnate, or even decline. With the power of online sales continuing to rise, honing this relationship to perfection is more than ever the key to a successful investment.

The ULI Retail and Entertainment Product Council is keen to continue this piece of research by building a larger database of centres and following their progress over a longer time period. The research could then further break down the relationship between adding leisure and F&B and the impact on retail sales.

In the next few months, the product council will approach members for additional information and ideas for centres that meet those criteria with a view to updating the analysis. Any member interested in contributing data should contact clare.game@uli.org.



About the ULI Retail and Entertainment Product Council

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.

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 Co-Chairs **Will Rowson** at will.rowson@hodesweill.com or **Marije Braam-Mesken** at marije.braam@cbreglobalinvestors.com, or **Clare Game** at clare.game@uli.org for information about joining a council.

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Grosvenor	Value Retail PLC and SD Malkin Properties





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