Trading Up

Dining, leisure, amenities, and the new shopping centre

ULI Retail and Entertainment Product Council

November 2017

Urban Land Institute

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ULI Urban Land Institute

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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 Marije Braam-Mesken at marije.braam@cbreglobalinvestors.com or Chris Igwe at chris@igweinternational.com, or Jacqui Collins at Jacqui.collins@uli.org.

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Executive summary

This is the second report from the ULI Retail and Entertainment Council to look at the role that food and beverage (F&B) and leisure have in supporting shopping centres as they adapt to retail sales moving online. This year the research extends that topic to consider how the addition of community amenities is also emerging among shopping centre owners.

The report includes a quantitative analysis of a sample of shopping centres before and after additions of nonretail uses. The report also examines current trends in the industry through a survey of ULI members involved in the retail sector and interviews with retail experts.

This new report extends its discussion on the topic of nonretail by looking at the trend for including community amenities in the tenant mix, and also gets some insight into how shopping centre owners are implementing this trend through a series of case studies from around the globe.

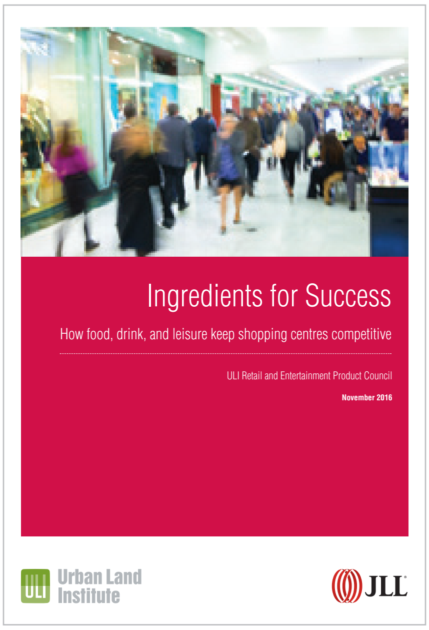
The research shows that size has become a major factor in how centres are reinventing themselves following the shift in sales online. Strategies for large and small centres are causing an increasing polarisation, with the middle ground expected to lose out.

For larger centres, a good leisure and F&B mix is still considered a positive overall strategy to create destination centres, with a focus on experience through leisure and a generous provision of F&B. At the smaller end, for neighbourhood centres, a move towards building identity through community uses is much more on the agenda. Done well, this is expected to drive footfall and dwell time through combining convenience shopping with uses such as medical centres and municipal facilities through to dance schools and blood banks.

While these two approaches do not guarantee the future investment value of shopping centres – particularly since many uses are bringing in lower rents compared with retail uses – interviewees agreed that shopping centres are most likely to be successful through adoption of these structural changes.

The results from a quantitative analysis of key performance indicators provided by shopping centre owners indicate that the shift towards incorporating nonretail uses is a positive one. Overall, there has been an increase in rental income for the study sample, as well as an increase in softer factors like footfall. A separation of retail sales results was not possible this year due to the nature of the information provided by owners, but combined F&B and retail sales were up 6.9 per cent across the centres.

The results of the survey also suggest that expectations of how nonretail uses contribute to the success of centres are increasing. Last year, respondents were focused on softer factors such as dwell time and footfall, which were ranked the highest in importance at 8.7 and 8.3, respectively, out of 10. This year they still ranked the highest, at 6 and 5.95, but almost equally important are supporting overall retail sales and rental income, at 5.89 and 5.63, respectively. This indicates that contribution to softer targets by nonretail uses is still welcomed but is no longer seen as enough.



While the move towards nonretail uses is viewed as a positive one, interviewees admitted that the transition has not been as easy as expected. F&B was in particular proving difficult to perfect in terms of size and tenant mix. Meanwhile, the limited number of leisure operators means that centres have a lack of options to choose from. Community amenities are providing a new range of potential uses, but, as these are a new trend, it is still too early to understand how they fit into supporting the bottom line of centres.

There is, however, consensus on who holds the power in today's retail market: the consumer. The period has ended when the shopping centre owner alone decided what was best for consumers while maximising income. Instead, owners are still grappling with how to optimise their tenant mix in order to meet the demands of the ever-changing consumer and remain competitive.

1. Introduction

This report is the second in a series commissioned by the ULI Retail and Entertainment Product Council in Europe to better understand the role of leisure, food and beverage (F&B), and community amenities in the continued reinvention of shopping centres.

While e-commerce prompted these structural changes and continues to be a driving factor, the conversation in the industry has now changed. The changes documented in this report are no longer just about defending shopping centres from sales going online, but instead about addressing the changing consumer behaviour that stems from technology's impact on society.

To do this, owners continue to turn to more F&B and leisure to increase the level of "experiences" in their centres. In addition, there is now a growing sentiment that centres should play a stronger role in the community, whether informally as the social heart of an area or more formally by housing community amenities such as municipal uses among the tenant mix.

ULI began looking at this topic in early 2016 when the ULI Retail and Entertainment Product Council supported the publication of an Infoburst by ULI Europe titled "Eat, Drink, Dwell: New Concepts in Shopping and Leisure". This report looked at some of the changing offers in retail, particularly in the leisure and F&B sectors.

In November 2016, with the support of the ULI Charitable Trust, the ULI Retail and Entertainment Product Council published its own report taking a quantitative and qualitative look at the same topic. The report included an analysis of the valuation impact of recent upgrades or extensions to a sample of centres that had recently added more leisure and F&B. It also examined the results of a survey on the topic and a number of interviews with leading experts.

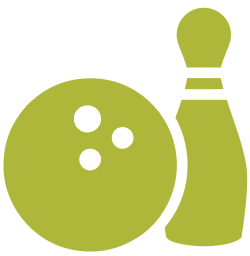
This new report continues to track the impact that nonretail has on shopping centres over the longer term. The ULI Retail and Entertainment Product Council has again gathered quantitative data to examine the impact on introducing F&B and leisure on financial returns and other metrics of shopping centre performance.

In order to capture the ways in which this trend has evolved, there are two main additions to this year's report. First, the scope of the study was expanded to consider the introduction of community amenity tenants into shopping centres. Second, in recognition of the global nature of this trend, this year's report contains a series of international case studies. These examples showcase some of the ways that shopping centre owners in different regions of the world are changing their tenant mix to respond to rapidly changing consumer behaviour.

Definitions

For this study, the following definitions were used.

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



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

Community amenities: healthcare, dentists, libraries, co-working space, and community uses.

2. Methodology

This research is based on an analysis of twelve shopping centres in Europe that recently upgraded or extended their centres to include additional leisure and F&B. Four of these centres were also part of the 2016 study.

The data was provided by some of the leading shopping centre owners in Europe, which among them manage or own about EUR77 billion of retail property. Owners identified relevant schemes from their portfolios where a significant leisure and/or F&B component had been added in the past two to three years. They were then asked to submit financial data from their schemes for the periods before and after the addition of the leisure and F&B.

The data included basic information about the size and breakdown of uses in the centre, as well as data on rents, rental values, sales, and vacancy. In addition, the shopping centre owners were asked to supply, where possible, figures on footfall and dwell times. JLL then analysed this financial and performance data; this analysis provides the backbone of the report.

The financial data provided good insights, but because leisure, F&B, and community amenities are an emerging trend, the information is based on a short time series and a small sample size. Therefore, the product council believed it was important to supplement this quantitative approach with qualitative research as well.

The research team carried out a number of telephone interviews with retail experts to gather their views on trends regarding leisure, F&B, and community amenities in shopping centres. These interviews also supported the development of a number of case studies, which are distributed throughout the report to further explore the changing tenant mix in contemporary shopping centres. In addition, ULI Europe sent a short survey on the topic to a sample of ULI members who are involved in the retail sector.

3. The landscape for leisure, F&B, and community amenities

The idea that meeting consumers' needs should underscore the success of shopping centres is not a new one. However, the rise of e-commerce has challenged fundamentally whether the industry was ever really properly focused on that goal.

As retail sales move online and threaten the survival of shopping centres, it is only now that the industry and its owners have really recognised the true power of the consumer. The interviews for this report give a real sense that the industry is moving into a new chapter, one in which the eyes of owners are really open to the needs of consumers.

"The industry has been complacent, hung up on retail and retail rents," said one interviewee. "We are now being challenged by guests: 'if you want my money and time, the experience needs to be a whole lot better for me'."

This is seen as a shift in thinking for an industry that for too long has decided what was best for the consumer. "It was one direction, and now we really have to listen or we lose them and they go somewhere else," said another interviewee.

While e-commerce has long been considered a primary driver of change in the industry, in reality what e-commerce translated to was a shift in consumer behaviour beyond shopping online. "I think [e-commerce] is a reaction; shoppers want convenience," said one interviewee. "They want access to better information when they want it. [E-commerce] is not driving anything at all. It is all being driven by what the consumer wants."

"We just think about human beings and what needs they have, and provide that under one roof and a reason to be there."

This means it is no longer enough for shopping centre owners to ensure that units are filled with the latest retailers, a strategy that in the past has helped keep centres fresh and owners focused on maximising the bottom line. "You don't lease your way out of problems, and you don't lease your way to success," said an interviewee. "That is one of the things that has changed fundamentally in [the last] five years, and will [continue] exponentially in the next few years. We react to consumers, and as a consequence that is leading to a change in the spread of uses."

This also means an evolving mix of uses. Owners have already plunged headlong into upgrading the F&B offer, and most are investing heavily in existing and new leisure concepts for their centres. But they now are also considering incorporating a diverse range of community uses and other community amenities, such as libraries, co-working space, municipal services, and medical centres. "We are very much focused on dwell time and attracting people," an interviewee said. "So we just think about human beings and what needs they have, and provide that under one roof and a reason to be there." Added another: "It's about trying to be connected with your community. Don't think of us as a shopping centre."

Main sample group:
12 shopping centres

Total gross lettable area:
732,936 sq m

Size of centres range:
23,000 - 111,482 sq m

Sample analysis

The main sample group comprised 12 shopping centres with a current total gross lettable area (GLA) of 732,936 square metres, with the size of the centres ranging from 23,000 to 111,482 square metres. They are located in the UK, France, Poland, and Spain and are all considered dominant shopping centres within their wider catchment area.

Within this sample set of 12, which was collected over the period of the two studies, there is a subset of four shopping centres that gave information for each report. These four centres are used as a subset in some parts of this analysis.

Figure 1 shows that the 12 centres in the main sample increased the percentage of GLA dedicated to food uses from 6.1 per cent to 8.5 per cent. There was a similar increase for leisure, from 6.7 per cent to 9.3 per cent. In nominal terms, a total of 42,110 square metres of leisure and F&B was added. GLA increased 6.3 per cent across the sample, of which 97 per cent was leisure or F&B.

Figure 1 Changes to leisure and F&B in main study sample, by percentage of gross lettable area (GLA)

	Total GLA sq m	Total F&B sq m	% GLA	Total leisure sq m	% GLA
Before	689,723	42,195	6.1	46,464	6.7
After	732,936	62,258	8.5	68,511	9.3

Source: JLL analysis of data provided by ULI members.

Shopping centre owners 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.

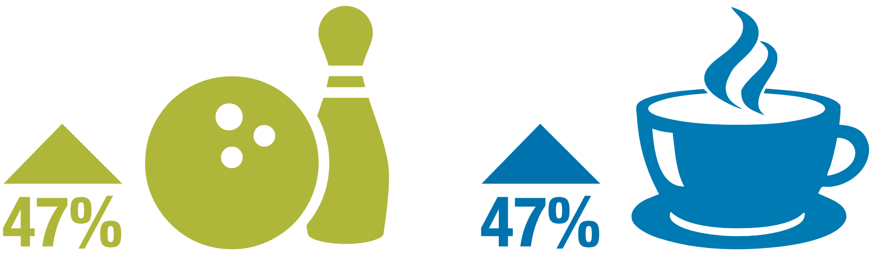
Overall, the increase in floor space dedicated to leisure and F&B across the sample is fairly even, with an additional 20,063 square metres to F&B and 22,047 square metres to leisure. This translates into a 47 per cent increase in F&B space and a 47 per cent increase in leisure space.

Three quarters of the 12 centres had only made marginal changes to their GLA with eight increasing less than 1 per cent while one centre decreased its space by less than 1 per cent. Two centres added one third more space while one had more than doubled its space.

Of the 12 centres, all increased their F&B space. Among the large centres, the increases were between 10 and 20 percent, while the small centres in some case doubled and tripled their space dedicated to food outlets.

All 12 centres now have a leisure offer with five introducing this to their mix for the first time with this latest refurbishment. Three centres with significant leisure uses kept levels the same, while three added between 2,500 square metres and 5,000 square metres.

Increase in F&B and leisure space after renovation



4. The role and contribution of leisure, F&B, and community amenities

One topic this report examines is what shopping centre owners expect from the addition of more leisure, F&B, and community amenities, and whether those requirements have changed since last year's research.

With many of these uses replacing traditional retail space, it is interesting to understand whether owners expect the same level of financial performance from the new uses, or if improvements to softer factors such as dwell time and footfall will be sufficient.

Figure 2 shows the results of a survey question that asked respondents to rate the overall contribution they saw from incorporating leisure, F&B, and community amenities.

Compared with the 2016 survey, the results show a more even spread across the categories. Last year, increasing dwell time and footfall were seen as leading factors, at 8.7 and 8.3, respectively, on a scale of 10, compared with 6 and 5.95 this year. In addition, these softer factors are rated equally important as supporting overall retail sales and income, which scored 5.89 and 5.63, respectively, this year.

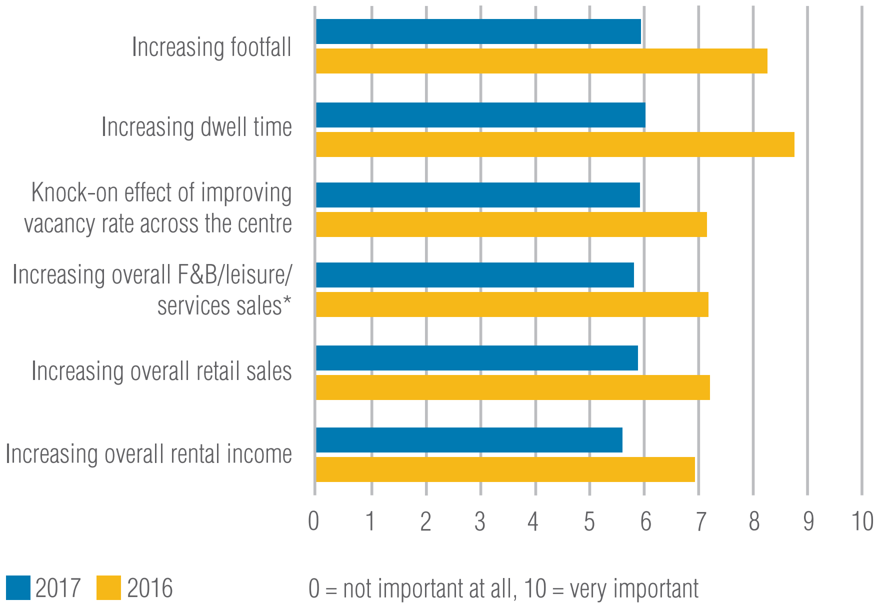
This still makes dwell time the highest-ranked factor for the second year running, albeit it by a much smaller margin, while footfall is now joint second alongside improving the vacancy rate across the centre.

These results suggest that the contribution to softer targets by nonretail uses is still welcomed but is no longer being seen as enough. This was backed up by one interviewee who said they are asked two things when they present to [investor] boards: "First: How much has F&B and leisure contributed to rental levels and sales within the store? Two: Is there any real data that shows that with a good F&B offer you can see that translated into sales?"

This is likely to put more pressure on owners to be able to measure the impact and offer hard facts on the contribution of nonretail uses. "It's hard to see any way how the inclusion of F&B and extensions has actually contributed," said an interviewee. "Empirically, this needs to be looked at more closely."

However, despite the fact that data is not yet available, Figure 3 shows that 58 per cent of survey respondents think the addition of nonretail tenants has positively affected the financial results of centres while 37 per cent think its contribution currently is neutral. Just a small proportion, 5 per cent, think the addition of these uses could be detrimental to a bottom line.

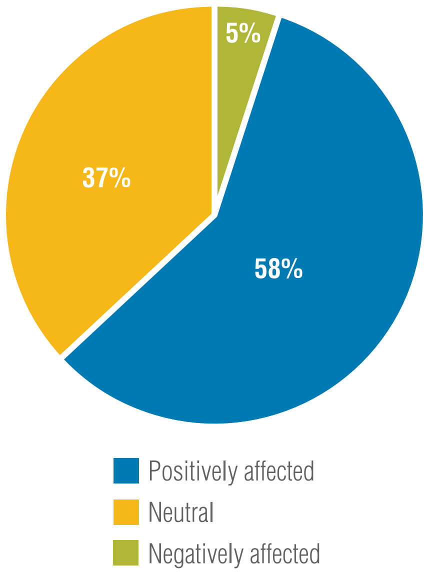
Figure 2 What is the most important contribution leisure, F&B, and community amenities can make to shopping centres?



**The 2016 questionnaire focused only on F&B and leisure.*

Source: ULI Europe member survey, 2017.

Figure 3 How the addition of leisure, F&B, and community amenities has affected financial results



Source: ULI Europe member survey, 2017.

Compass One, Sengkang, Singapore

© M&G Real Estate

With the move to online sales affecting the retail sector globally, Asian shopping centre operators are also moving to reposition their assets to remain competitive.

Two years ago, M&G Real Estate's core Asian real estate fund embarked on an extensive refurbishment of its 25,000-square metre Compass One shopping centre in Sengkang, Singapore. Central to the plan was to convert the space previously occupied by a department store and a major electronics outlet, which had made up over 27 per cent of the net lettable area (NLA), into more speciality food and beverage and service related shops. This complemented the current retail tenancy mix and the fund's strategy to have greater exposure in defensive non-discretionary retail.

F&B now makes up more than 30 per cent of the centre's NLA, while amenities, including health and beauty, occupy around 15 per cent and leisure/sports just under 7 per cent.

"The distribution of F&B in Compass One is considerably higher than our other centres in South Korea and Australia," says a spokesperson for M&G. "Nonetheless, this emphasis towards more F&B is in line with the retail space trend in Singapore, and we are of the view that Compass One's location within a transportation hub and a growing residential catchment can support this allocation."

As landlord, M&G is focusing on maintaining a good balance between experience-led and merchandise-led retail for the centre. In general, it sees good-value F&B working for suburban catchments, especially families.

In contrast, slightly more-high-end F&B would be unlikely to perform well compared with urban centres because of the small pool of customers. M&G adds that education-related services such as a public library and music school should continue to do well because they complement the suburban retail catchments, which are relatively younger households.

For a neighbourhood centre with an emphasis on necessity shopping for the local catchment, the aim for the F&B was to provide food options that are reasonably priced and provide good variety. The centre has ensured that its services meet this goal as well address needs in healthcare, beauty services, telecommunication, optical services, and banking.

M&G sees these changes and the addition of more F&B and amenities as contributing to the defensiveness of the shopping centre, as well as its ability to increase footfall and dwell time. "However, simply increasing F&B, leisure, and services may not mean higher income over the long run," the spokesperson says. "In fact, the oversaturation of F&B may have a dilutive effect for F&B operators within a catchment area. The key is to maintain a good variety and improve clustering to help all tenants perform."

O'Learys

© O'Learys

Rather than pick F&B or leisure for a shopping centre, O'Learys has chosen a format that says it can offer both. The U.S.-style sports bar and restaurant chain, which was set up by Swedish founder Jonas Reinholdsson, now has 130 outlets across 12 countries.

The brand, which mainly expands through franchise operators, is increasingly finding suitable locations in shopping centres as retailers downscale their presence in larger units and owners come to appreciate their ability to drive footfall.

"Shopping-mall owners are starting to understand that we need to do something between the shopping and the eating," says Claes König, international business development manager at O'Learys.

The most important aspect to the brand is that its leisure offer sits along the F&B in one unit. "We offer a third piece of the puzzle. You should not just add leisure or dining; it's about how you can connect the dots," he says. "Going bowling might be too much of a commitment, but you can go to a restaurant and get exposed to it."

Its main theme is sports, but the chain is flexible in how that is incorporated into its restaurants. For example, the theme can take the form of a small bowling alley, mini-golf, or "augmented climbing", which allows a second climber to scale a wall while having the first climber's image projected onto the space. "One of the keys is that we are not necessarily trying to educate our customers in types of activities they don't know," König says. "It is something they know and like, and then we are 'O'Learifying' that and adding fun to the experience."

One of the brand's main challenges at the moment, says König, is that it sees landlords pricing leisure rents at the same level as F&B. "It's a bad choice because right now the market is overheated with F&B brands with a lot of investment capacity and it could be a big challenge to be profitable with such high rents. Very few of the brands are growing on an organic level," he says. It plans to open 20 outlets in 2018 and enter four new markets.

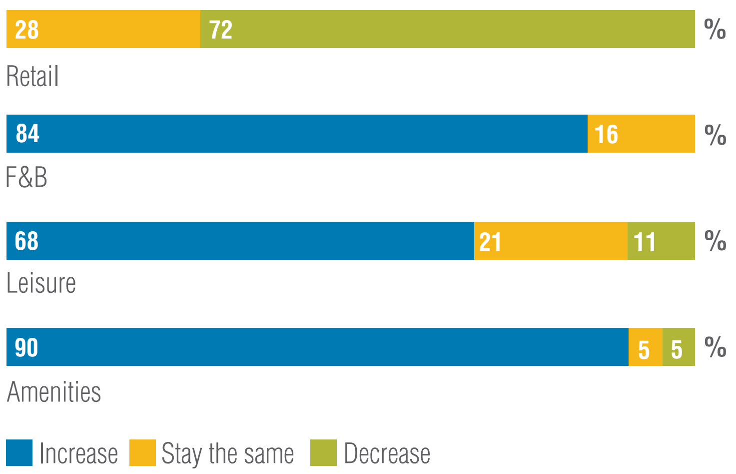
The competition among brands is also allowing owners to secure relatively high rents, but König is concerned that some F&B brands will not be sustainable or will not be able to maintain quality once the private equity backers withdraw. "As a brand, it is very important to us that each of our franchisees has a sustainable operation and investment," he says.

The chain's range of formats means the size of units varies from 250 square metres in airports to the largest in the Mall of Scandinavia, which is 7,000 sq metres. The preferred size is 1,500 to 3,500 square metres with bigger installations of leisure for outlets over 700 to 800 square metres.

For the larger flagship units, the most important factor is evening footfall. Therefore, O'Leary's likes to be in centres with large residential catchments or an arena, and next to evening entertainment such as a cinema.

It will also consider locating in medium-sized shopping centres, with the brand having the ability to become a destination for that centre. Its first unit in Belgium, located on the outskirts of Ghent, has quickly become an attraction for the local community, says König.

Figure 4 How the proportion of leisure, F&B, and community amenities will change in centres in the next three years



Source: ULI Europe member survey, 2017.

In a new survey question this year, respondents were asked how they expect the makeup of the tenant mix to change over the next three years (Figure 4). At 72 per cent, a large majority believes that the proportion of retail in shopping centres will fall. The remainder think it will remain the same, while no respondents think it will increase.

Community amenities is the category seen as the most likely to rise, at 89 per cent, followed closely by F&B with 84 per cent. This reflects both the popularity of F&B as a current solution to reinvent shopping centres and the expected rise in service businesses as new tenants in the future.

Impact on retail sales

Overall, the data suggest that there has been a healthy increase in income and sales growth for these centres, and therefore that moves to increase leisure and F&B are having a positive outcome.

With this year's sample, it was more difficult to examine the impact of leisure, F&B, and community amenities on retail sales because some companies do not separate their sales data into sectors. However, making an assumption to remove the leisure element of sales, retail and F&B sales combined rose 6.9 per cent across the centres. With some centres expanding, it also needs to be noted that this would also have a positive impact on rents.

It is also possible to look at the increase in retail sales for the sub-set of four centres that were in the sample both this year and in 2016. This year, retail sales alone were up 0.43 per cent for the four centres. This compares like-for-like to a 5 percent decline for the same portion of the sample last year. Although the increase is small, it is in a challenging period when many centres have seen sales fall. While the contribution from F&B and leisure only provides a small 'halo effect', it is likely to have at least stabilised the performance of the centre.

However, the data suggest that sales have improved over the intervening period and that as F&B and leisure projects bed-down, the halo effect of supporting retail sales is enhanced.

Affordability of rents

The results show that minimum guaranteed rent or the rent levels have perhaps grown more aggressively, but this is still within a relative level of comfort for tenants.

The analysis also looked at the affordability of the rents before and after the addition of leisure and F&B (Figure 5). Overall, there has been a 6.3 per cent increase in GLA in the sample and a 14 per cent increase in rent.

Figure 5 Affordability ratios for retail and F&B rent to sales

	Retail rent-to-sales ratio, %	F&B rent-to-sales ratio, %
Before	10.3	13.6
After	10.8	13.7
Change	50 basis points	10 basis points

Source: JLL analysis of data provided by ULI members.

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The percentage-point changes in rent-to-sales ratios for both retail and F&B (50 basis points for retail and 10 basis points for F&B) indicate that minimum guaranteed rent or the rent levels have perhaps grown more aggressively, but this is still within a relative level of comfort. No equivalent figures for leisure are available because fewer operators declare their sales figures to owners.

In the sample, total estimated rental value growth had been 28 percent compared with 36 percent for the sub-set of centres, suggesting that stronger centres with F&B and leisure had been able to charge higher rents.

Dwell time, footfall, and vacancy

This analysis suggests that the new tenant mix with additional F&B and leisure has had a positive impact on footfall and vacancy, with footfall rising and vacancy rates slightly decreasing.

The data analysis looked at changes in dwell time, footfall, and vacancy as set out in Figure 6. Not enough centres could supply dwell time figures to be aggregated but, where given, they did increase.

For the overall sample, footfall showed a significant increase of 7.24 per cent compared with levels before refurbishment and expansion took place. There would also be some impact on footfall from the overall expansion of the centres.

For the sub-set of four centres, the increase in footfall was 11.1 per cent and vacancy had fallen 3.97 percentage points, indicating a stronger long-term contribution to the centre by F&B and leisure as centres bed-down.

Figure 6: Changes in footfall and vacancy rates after addition of leisure and F&B

	Change
Footfall	7.24%
Vacancy rate	–1.00 percentage points

Source: JLL analysis of data provided by ULI members.

5. Trends in leisure, F&B, and community amenities

While the nonretail tenants are providing an overall contribution to the success of shopping centres, it is also important to consider the individual performance of the three types.

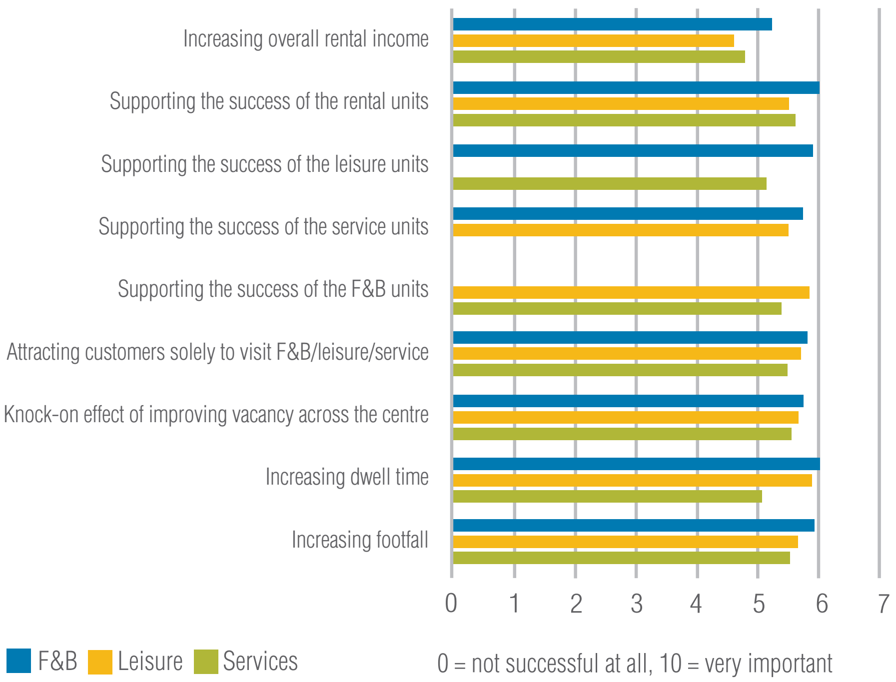
Figure 7 demonstrates the faith put into F&B by survey respondents. F&B is consistently rated as the most likely to support the success of shopping centres. F&B is seen by respondents as the main pillar in the reinvention of shopping centres, with expectations high for both hard factors, such as the success of the retail units – ranking at 6.0 on a scale of 1 to 10 – as well as softer factors, such as increased dwell time, also at 6.0.

For leisure, the contribution that ranked highest was increased dwell time, at 5.9. For community amenities, a new category in this year's survey, the rankings were in general lower than F&B and leisure, but it is notable that there were greater expectations for community amenities than for leisure when it came to increasing overall income and supporting the success of the retail units.

The graph shows a pattern similar to that regarding overall contributions (depicted in figure 2), with the majority of rankings clustering between 5.0 and 6.0, compared with last year, when soft factors for F&B were 8.4 for dwell time and 7.8 for footfall. This could suggest that a more all-round contribution is beginning to be expected from these nonretail uses.

"To get F&B right really takes time."

Figure 7 How successful are leisure, F&B, and community amenities in achieving the following contributions?



Source: ULI Europe member survey, 2017.

Food and beverage

F&B continues to be the strongest and most sought after of the nonretail categories. However, rather than still regarding it as the saviour for shopping centres, interviewees for this year's report raised more concerns about implementation, a marked shift from last year.

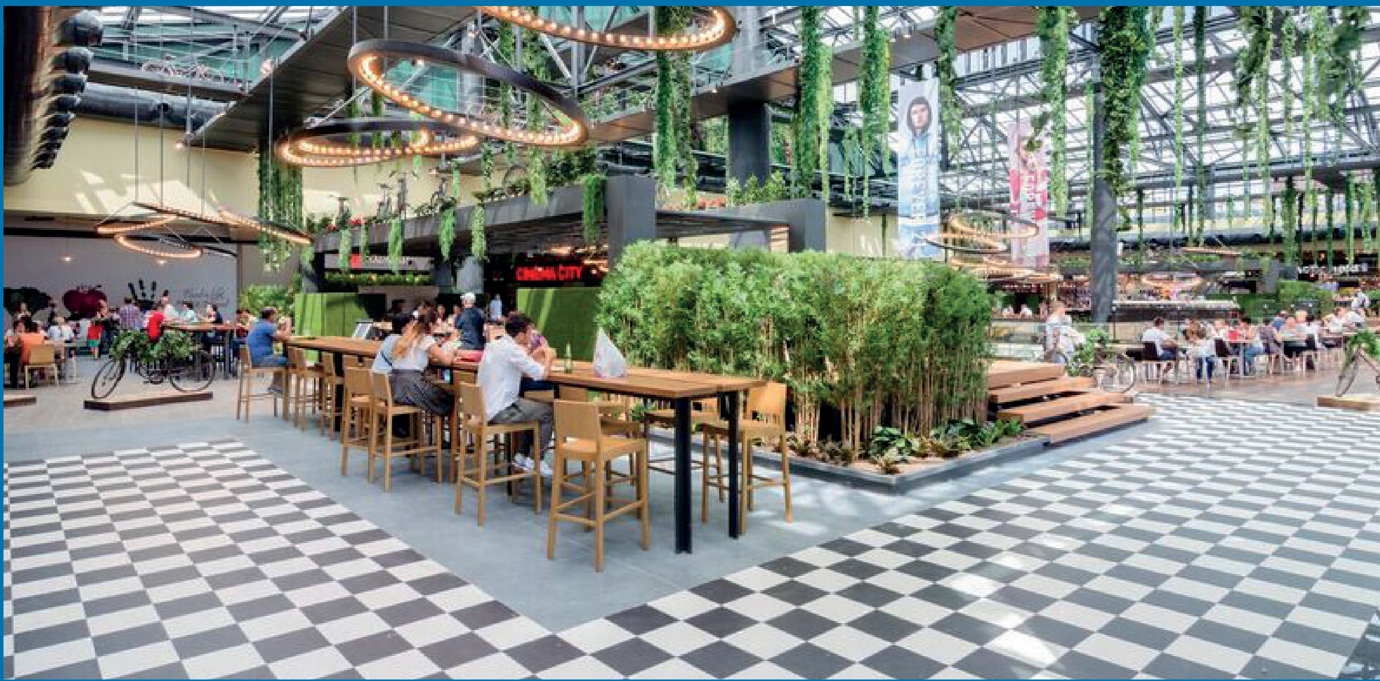
There are now questions about whether F&B, which has been a great solution in the short term, is actually sustainable for the longer term. "Like any other part of the industry, it is moving very fast," said one interviewee. "There are so many new F&B offers, they won't all make it."

The concern is that so many new operators are popping up with little differentiation between them that there will be a fall-out in the sector, making it difficult for F&B to meet owners' and consumers' expectations. "The market has moved so swiftly – certainly 18 months ago, there were so many people looking for space because it was all private-equity funded. It was all about opening space wherever."

This leaves a potentially unevenly performing sector responsible for a large chunk of a shopping centre's success. "The argument is that retail overall will start to decrease, and when we get to 25 to 30 per cent [of F&B], it will never be able to compensate per square metre. But it is a big factor in longevity of the centres," said one interviewee.

The fast-moving sector has also put pressure on those brands that have been performing well. "Some of the best operators are having a tough time keeping up with consumer expectations," said one interviewee, adding that only a few can offer the same quality and service in every location.

ParkLake, Bucharest, Romania



© Sonae Sierra

ParkLake shopping centre is taking the leisure trend a step further by positioning itself as a gateway to one of Bucharest's largest parks.

The 70,000-square-metre centre, developed and owned by Sonae Sierra and Caelum Development, sits on the edge of Titan Park. Through its design and offer, it attempts to be a meeting point for those visiting the park, as well as consumers coming for its 200 shops and other attractions.

Central to this connection is ParkLake's glass-encased, 3,000-square-metre food court and 2,000 square metre terrace overlooking the park, which are designed to encourage customers to dwell. "The main differentiation from other shopping centres is that this food court is not only a place to eat," says Catalin Cucian, ParkLake's manager.

Included in the food centre design, which reflects the nature theme and focus on families throughout the centre, are open spaces for seating, as well as quieter zones for as few as three to six people. It also has integrated technical features that help provide a more ambient environment, including a sound system, which absorbs much of the regular shopping centre noise. "To be large as a food court is nice, but it is not the only thing. We are creating an environment to sit and enjoy and spend quality time there," says Cucian.

Electric outlets are provided for those who want to work, and the centre has high-speed wi-fi. "It's a place where you can really work and download files; it's like having an office," he adds.

For those eating, the food court has a mix of international food from sushi to Italian to local operators, as well as fast-food outlets and seated restaurants.

One year on from its opening in 2016, the food court is one of the best-performing parts of the centre, Cucian says, with 50 per cent of visitors spending time there. Dwell time in the centre is now considered an important measurement of success.

In future years, if use of the food centre continues to grow, it can be extended by adapting areas built in at the design stage that are currently decorative features.

ParkLake also has a strong leisure component, with a 14-screen cinema, fitness centre with swimming pool, and 1,000-square-metre play centre, which charges an entrance fee. In addition, the centre has several free kids play areas and a garden fronting on the park, as well as large and small communal areas across the centre.

These areas accommodate community uses such as workshops, including a mother and baby group that gathers more than 100 mothers and their children each week. "Most activities in these areas are not related to shopping," says Cucian.

The centre also hosts a number of events each year, such as a food festival in the garden, as well as temporary attractions like escape rooms and meet-and-greets with cartoon characters for the kids.

In the end, ParkLake is there to accommodate how consumers decide to use it, Cucian says, whether as a parking place when visiting the park, as a work or meeting space, or more traditionally as a place where they visit stores and the food court.

“[F&B] is nothing like the old days. It’s more authentic. Done well, it can be very successful.”

Another interviewee agreed with this assessment: “As these operators expand, they tend to lose what made them popular in the first place. A number of operators have perhaps overexpanded and lost that factor.”

Another issue that came through in the interviews is that owners admit that F&B is harder to perfect than first anticipated. Merely increasing the volume of food outlets is not enough. “To get F&B right really takes time,” said one interviewee. “There are examples where it is either not well located, not well tenanted, or where the food court is too big with too many seating areas, and we cannot fill the vacant units or find the right operators.”

This comes with the added pressure of getting it right the first time, because it is capital intensive to retrofit shopping centres. “Then, there are the minutiae,” said an interviewee. “If you have a food court, you need to get the seating right – no queues, or people won’t come back, and you need to maximise the seating and maximise the offer.”

There have also been cases in which restaurant operators have found it difficult to be sustainable within the operating hours of the shopping centre. “F&B has to be about opening long hours and being accessible,” said an interviewee, who had seen too much disparity between retail and F&B opening hours, resulting in empty shopping centres with F&B still open.

It has also been difficult for shopping centre owners to apply the lessons learned and expertise gained working on one centre to another, because each location presents a different challenge. A centre’s catchment and the surrounding area impact what is required.

“We have some centres linked to the high street, and people tend to move to that area to eat,” said one interviewee. “It’s not just about our solitary shopping centre. It’s also other places, and the competition is always different.”

For that reason, it has been challenging to get the levels of F&B right or even to provide theories on any “tipping point” of the proportion of F&B in shopping centres. “It might be a question you can answer for an out-of-town centre, but in the city centre, we’re not in control of what happens in or around us, so our 20 per cent might be 5 per cent of the whole city,” another interviewee said.

A variety of views exist as to what maturity stage different countries are in the F&B market, particularly in the UK. “We are now cruising at 20 per cent of our rent, and 20 per cent of our sales are restaurants, and I can see that going in the next five or ten years to probably 30 per cent,” said one interviewee.

However, another interview said the UK was already “overcooked”. “It probably was a solution in the short term to come and fill some voids,” the interviewee said. “If we are approaching life on the basis that we’ve got a hole, so fill it with food and don’t worry about what it needs, it just postpones the inevitable.” In contrast, the interviewee thought most parts of continental Europe had room to grow.

One way owners are trying to mix it up is to build in flexibility, such as providing generic space that can be shared between food outlets to provide variety. “It’s nothing like the old days. It’s more authentic. Done well, it can be very successful,” said one interviewee. This includes online food delivery concepts that are now moving into shopping centres and getting the local restaurants that they deliver for to cook there.

Leisure

Leisure has a long history of being seen as an integral part of a shopping centre’s mix, yet the ingredients needed to making that succeed continue to elude owners and operators. According to some interviewees, this new era of leisure will be no different. “The leisure sector is weaker now that it was last week, weaker than it was the month before that,” said one.

One of the main issues in the sector is the lack of variety in leisure operators. Leisure tends to be the preserve of the larger centres, but even then, apart from the cinema and bowling, only a few alternatives are on the market. Examples are KidZania, a chain of family entertainment centres, that is only suitable for very large centres, and Bounce, the trampoline player, which is expanding across Europe.

“There are not enough players in the industry, and it’s not growing in a structured manner. They don’t follow the same expansion as in fashion,” said one interviewee, citing a player growing more randomly across Europe and Asia. Others are trying new ideas such as Mall of Switzerland with its surf wave (see case study).

The one mainstay continues to be cinemas, which have experienced something of a renaissance despite home cinema alternatives. “Definitely, cinemas fell out of favour and were seen to be using larges spaces, with landlords not receiving much in rent,” an interviewee said. “But film and cinema are now about experience – comfortable chairs with restaurant/bars – so they are now increasing their space in shopping centres.”

“There are not enough players in the [leisure] industry, and it’s not growing in a structured manner. They don’t follow the same expansion as in fashion.”

PureGym: Straddling leisure and community uses

© PureGym

One of the biggest new arrivals for leisure shopping centres across the UK and some other parts of Europe is the addition of fitness centres. PureGym, the UK's largest low-cost gym operator, now has more than 190 gyms across the country, about 17 of which are located in shopping centres.

Duncan Costin, property director for PureGym, says shopping centres had not specifically been a formal part of its expansion strategy until they started to fit the company's criteria. "It was about whether we could get sufficiently large enough space that could be secured and fitted out at affordable costs and – outside the M25 – get parking," he says. "Shopping centres was a natural place to go for town centre sites."

It ended up being fortuitous for the company that some corporate failures by large retailers such as BHS left shopping centre owners with large multifloor spaces. While landlords could often fill the ground-floor space, the upper floors were more troubling to dispose of but could be configured to meet PureGym's requirements. "With a gym, as long as we've got a ground-floor lobby, we can make the space work for us," says Costin. This has also included redundant upper-floor storage space for retailers and shopping centre landlords.

Historically, PureGym has been a large-box gym operator, with locations from 12,000 to 20,000 square feet (1,115 to 1,858 square metres). It is now launching a smaller format of 5,000 square feet (464 sq metres) plus, which opens up possibilities in smaller-population towns.

Costin says shopping centre owners quickly recognised the sustainable benefits of accommodating gyms, even if the first wave had been about filling empty units. "The shopping centre owners we speak to, are very big on tenant mix and on amenities and different uses in the centres. In smaller towns, they are trying to make them community hubs." A large-box PureGym will, on average, see 800 to 1,000 visitors a day.

PureGym still sees room for expansion with low-cost gyms representing about 20 per cent in terms of market penetration in other Northern European markets such as Scandinavia and Germany and only around 14 per cent so far in the UK.

The sector's expansion, and backing by private equity firms, has also led to an evolution in its covenant strength and an increase in the value of the outlets. "The market is recognising the value we bring and the financial security with strong covenants," Costin says. Historically, its units have sold at 8 to 9 per cent yields in the investment market, but a unit in Lambeth, London, recently achieved 5.1 per cent.

Expansion is also occurring in the sector to suit different consumers. “In the UK, we see another interesting trend, which shows how shopping centres are responding to people’s desire for authenticity and intellectual experiential need,” an interviewee said. “We are seeing a lot of art-house cinemas. Larger regional shopping centres can have a more traditional multiplex and even coexist with an art-house one, as the offer is very differentiated.”

Those who are trying new concepts are looking to sports such as trampoline, miniature golf, and rock climbing. There is also the rise of fitness centres in shopping centres, which is seen as a crossover between leisure and community uses (see PureGym case study), and a concept where owners are confident of the impact on retail sales. “I still don’t link people watching film and shopping for clothes,” said one interviewee. “It’s a different dynamic for gyms: it’s smoothies and sports shops.”

For some, differentiating the leisure concept involves building repeat business, moving the leisure away from being a destination activity that the customer visits infrequently. An example is an activity course using electronic armbands that track progress, which encourages customers to come back regularly to try to beat their own times.

Others hope that technology trends involving concepts such as artificial intelligence can also start to provide smaller-scale opportunities for shopping centres in the future.

However, leisure is also an area where owners are looking to retailers to step up and add to the experience of the shopping centres. “We’re just about to sign a deal with someone who is going to give half of their store to a basketball court,” said one interviewee. “Lots of people are looking at ‘how do we introduce variety within our retail spaces?’ and we see that more and more.”

Community amenities

The new kid on the block for shopping centres is the provision of community amenities. It is a trend that has gained momentum among interviewees since last year’s report.

“I think the rise of community is coming: it’s very important,” said one. “Owners have identified [that the shopping centre is] not going to be a retail destination, but it’s where people want to meet. It has to be convenience-led, and with convenience comes community.”

Shopping centre owners have realised that they can generate regular footfall through routine uses such as doctors, dentists, libraries, and other community facilities. This, then increases activity, but also changes the nature of the centre in consumers’ eyes. “[Shopping centre owners] are trying to attract more people, trying to create an identity and more social interaction. Providing more amenities can only help in building that,” said one interviewee.

In addition, it could be something of a lifeline to rebuilding an identity and purpose for the centre, especially among smaller centres. “For those challenged schemes with high levels of vacancy, F&B is not suitable,” an interviewee said. “So those that are trying to reposition schemes that are more convenience-led, tenants such as a doctor’s surgery or a library can guarantee footfall.”

One part of the world that centre owners and operators can they can learn from is the Nordics, where it has become common practice to integrate high-quality public uses within shopping centres. “It’s always been an integral part of our portfolio, but definitely in the last few years we have been more focused on it,” said Jurn Hoeksema, chief operating officer, Citycon. “It’s the ability to make the best use of the space and the ability to facilitate activities that connect yourself with the community in a more physical way.”

One of the main drivers has been the Nordic cultural perspective that public services are an important primary function of communities rather than an afterthought. This means the national and local governments want to provide better facilities, which mean better locations and premises.

As a result, landlords can also command rents closer to market levels than in other countries. In one of Citycon’s centres in Helsinki, the local government is paying market rent for a “service square”, a 6,000 square metre centre with public services including a library, public health care, maternity services, social services, and a youth centre. It is part of a development that attracts 1.5 million visitors a year.

“If we don’t put in the right spaces, we only attract half the people to their site,” Hoeksema said. “They pay lower than prime retail, but on the other hand they are a great credit. Long term, there is a lot of commitment to keep the centres relevant.”

For existing centres, Hoeksema said, community uses often occupy second- and third-floor space. As this is not prime rental space, the estimated rental values are lower. He added that these centres also see metrics such as footfall and dwell time and how people flow around the centres as a much more valuable measure of success. Adding in community amenities has seen its centre footfall increased with locations such as the service square creating loyalty and differentiating itself from other shopping centres.

“Owners have identified [that the shopping centre is] not going to be a retail destination, but it’s where people want to meet.”

Mall of Switzerland, Lucerne, Switzerland

© FREO

As a new shopping centre coming to market in November 2017, the Mall of Switzerland had a blank slate on which its right tenant mix could evolve in an e-commerce world.

The 65,000-square-metre centre just outside Lucerne, being developed by FREO on behalf of the Abu Dhabi Investment Authority, will be the biggest lifestyle shopping centre in central Switzerland.

"A key element of the project identified as a necessity in the initial planning phases was the strong integration of leisure components," says Nikolas Löhr, director of retail marketing at FREO. "This was important to not only attract the local catchment, but also to position the mall throughout Switzerland as a unique retail and leisure destination."

The centre allocated 15,000 square metres of the scheme for leisure space, which is mainly being housed in the separate leisure building adjacent to the main retail building and linked by the central outdoor Ebisquare.

The main leisure attraction will be an indoor surf wave opening in spring 2018, which will be the first of its kind in the country. There will also be a 12-screen multiplex Pathé cinema with the largest IMAX screen in Switzerland, as well as a 2,000-square-metre fitness studio.

"There are examples of long-established centres that don't have leisure, but to see the development of turnover, we looked to see how we could include it best," says Löhr. "Just another movie theatre doesn't cut it. We needed something very different that is not just interesting for two or three months, but sustainable. We believe that with the wave, we are creating something with impact in the long term and always interesting for people to see."

The surf wave is being housed behind a glass facade to serve as a visible attraction to spectators and participants, bringing them to the area to eat or shop at Jochen Schweizer, an organiser of extreme-sports experiences, with its first store outside Germany.

But it was also important for FREO to be inclusive in its leisure offer in line with its aim to be a family-orientated centre. To attract its younger customers up to the age of 12 years, together with leisure specialists Theleisureway from Spain, it has developed Kidsland, an indoor adventure park based on Swiss themes, where children can stroll past miniature lakes, climb miniature mountains, and make their way through tunnels. "The leisure component is for everyone and will even include areas for kids' birthday parties. Parents can also join kids in the adventure land for an hour or two and go to the movie theatre afterwards," says Löhr.

There is also a crèche for younger children and babies and more informal social spaces for families.

Ebisquare, with its water fountains, will be the outside meeting point, marketplace, and event location, starting with an ice rink at the opening. This is also where food tenants like MacDonald's will have outdoor terraces for customers.

Going forward, the scheme also has the potential for community uses to be added: the local authority is considering the site for a swimming pool.

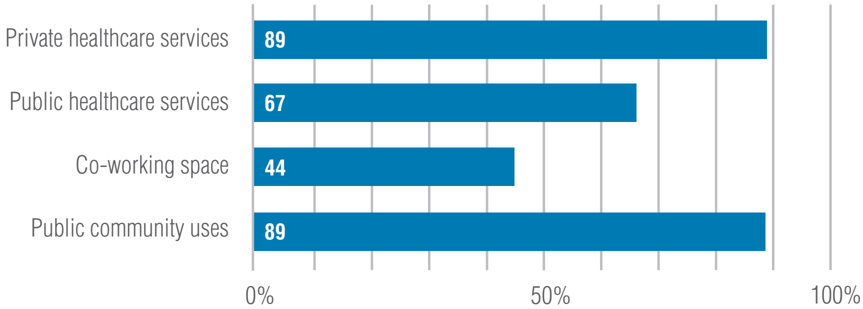
Food and beverage is dotted around the centre rather than focused on one food court. McDonald's is on the ground floor as the only fast-food retailer, but otherwise the developer has opted for creative cafés and serviced restaurants. This is expected not only to help with dwell time, but also feeds into FREO's plans for the mall to be family orientated. For example, there will be a Migros family restaurant with outside terrace seating, which is close to Kidsland on the top level of the mall.

On the retail side, FREO believes that its international visibility helped it secure not only the typical Swiss brands, but also international brands such as H&M, Bershka, Mango, and Footlocker.

The shopping centre will include LaStrada, an area dedicated to more premium and lifestyle brands, which will see some tenants arrive in spring 2018. In addition, it has set aside a few units to be individual pop-up stores, which will give both local Swiss and international retailers a chance to test their brands within the centre. One of the pop-up tenants is Tesla, operating its first showroom in a Swiss shopping centre.

"It's the ability to make the best use of the space and the ability to facilitate activities that connect yourself with the community in a more physical way."

Figure 8 What type of community uses should play a role in shopping centres in the future?



Numbers are the percentage of survey respondents who indicated that each use should play a role.

Source: ULI Europe member survey, 2017.

Uses in centres in the Nordics include dentists, healthcare clinics, eye clinics, as well as more unusual uses, such as a blood bank and a chapel. Medical uses are also now increasingly common in the U.S. as well (see 100 Oaks case study, page 18).

While integrating community uses into a shopping centre has served a greater purpose in the Nordics, elsewhere some interviewees are finding that meaning through necessity. "We have a dance school in one of our centres," said one interviewee. "They are not paying rent and service costs, but it was a unit which was vacant – a difficult unit."

Since it relocated to the shopping centre in Germany, the dance school has significantly increased its membership. "It's driving different footfall as well, with more parents of smaller children. It becomes more a community place if you go for those types of activities."

The double benefit of increased footfall and building community has also played out through marketing and events. One centre sponsored the local basketball team, so it was able to give away tickets and have signing sessions in the centre. "This was really building the relationship with the local community," an interviewee said.

The same interviewee found that being more community orientated helped establish a new centre, which was opened for dance and sports events in the evening. The shops may have been shut, but the centre still attracted 2,000 to 3,000 people. "We struggled with that centre, looking for new opportunities and new marketing opportunities. The centre was new in the area, and this created it in the mind-sets of the people," the interviewee said.

Figure 8 shows the types of uses that survey respondents think shopping centres should accommodate. Two types stand out, both being selected by 89 per cent of respondents: private healthcare services and public community uses, which include, for example, libraries and municipal help centres. Also attracting strong interest was public healthcare services, at 67 per cent, while co-working space was rated by 45 per cent of respondents. Other uses suggested included cultural facilities.

Another interviewee believes this shift is part of a longer-term move for shopping centres to be thought of as entirely mixed-use schemes. "There will be sites that we will be looking at and going full on mixed use," the interviewee said. "It could be a corporate office on the side or it could be residential use, because if it is [mixed], there is a loyalty to a scheme."

Already emerging is co-working space in a few shopping centres. One centre in the UK has a community hub, which acts as a shopping centre office but includes space for co-working offices and "click and collect" sites where customers pick up merchandise ordered online. "Co-working space is complementary to what's going on. [Continental Europe] is a little behind where we are in the UK, but cooler cities are beginning to get there," said an interviewee.

Others are enthusiastic to consider co-working, but think it might be difficult to manage. "It's a good thing to do in the cities where we're active, but you need someone in between who manages these people day-to-day and makes sure they turn up and that they do the right thing," an interviewee said. "That is not something that we can justify putting resources onto." One interviewee mentioned an idea to partner with a university and offer space for graduates as they enter the world of work. Others are working with local operators.

While leisure tended to suit larger centres, community uses favour the smaller urban centres, which has the right conditions to be convenience-led and neighbourhood orientated, giving them a better chance to create that local sense of place and identity.

For Citycon, the link to public transport and flows of people was also essential: "A very important part of shopping centres in our portfolio is the transport link. Car-driven destinations in combination with a services community-type of tenant does not really fit together," said Hoeksema.

100 Oaks, Nashville, Tennessee

© LaSalle Investment Management

While the practice of incorporating medical facilities into shopping centres is in its infancy in Europe, across the Atlantic it is seen as one tonic in the industry's ongoing battle to remain healthy.

A pioneer in this trend is 100 Oaks Mall in Nashville, Tennessee. With the centre half empty in the early 2000s, the owners at the time turned to a new strategy to reimagine its future. They struck a deal with Vanderbilt University Medical Center to take almost half the space at the 890,000-square-foot (82,700 square metre) mall for its outpatient clinic.

The 375,000-square-foot (35,000 square metre) clinic, lab, and pharmacy portion of the mall now offers 20 different medical speciality services for patients alongside the regular retail stores and food and beverage offerings.

The transformation has made 100 Oaks a survivor in a shopping sector that is under huge economic pressure. An already overbuilt physical sector, retail is now seeing rising e-commerce sales cutting deep into performance. The highest estimate from Credit Suisse is that 147 million square feet (13.7 million square metres) of U.S. retail space could be closed in 2017.

This means the alternative uses in shopping centres that Europe is now flirting with are already a staple in the U.S. fight to help shopping centres reinvent themselves.

In 2012, three years after the work to incorporate the outpatient centre was complete, the shopping centre was bought by its current owner, LaSalle Investment Management. The acquisition was for the firm's U.S. open-ended core fund, an indication of its faith in the strategy long term and the scarcity of such a large reimagined shopping centre asset.

"We liked it for its mixed-use format," says Nicholas Koshiw, vice president at LaSalle Investment Management and the 100 Oaks asset manager. "It's a large, thriving, mixed-use centre in a very compelling market, closely located to downtown Nashville.

"The medical component is a well-established and successful hospital system, and from a retail perspective, it's occupied by leading national retailers. There is a clear synergy between the medical and retail components."

As well as repurposing the challenged space, the medical centre benefits existing retailers, customers, and patients. "Retailers' sales have increased since Vanderbilt took residency, given the higher level of foot traffic from patients, families and employees," says Koshiw. "There are also symbiotic benefits. For example, there is a large population of people at Vanderbilt that need to eat somewhere, and the restaurant line-up at the property provides a high-quality, convenient set of dining options."

Since LaSalle bought the centre, it has also selectively upgraded the tenants and the merchandise mix. This included adding some more food uses as well as apparel and cosmetics stores.

An outpatient clinic located within a shopping centre of this scale is still rare, but since this transformation, the trend has caught on. Dubbed "medtail", there is a growing volume of smaller-format medical uses, such as chiropractor or dentists taking up around 5,000 square feet (465 square metres) to the larger end at 20,000 square feet (1,900 square metres), which in some cases have grown to become the new large anchors for shopping centres.

However, the trend has been about more than just the right data points. "It's an inviting place to shop with appealing common areas. It's a crossover shopping formula that works," says Koshiw.

© Citycon

However, one tactic that can be replicated across centres of all sizes is making good use of the common areas. One interviewee said that in a centre in Portugal there is a social area with tables, a wifi hotspot, and a water fountain separate from the coffee shops. "Business people have got to know about it," the interviewee said. "Some are coming in five days a week when it was quieter, spending money and making the place look busy."

In Germany, another centre has a relaxing lounge with comfortable furniture. "Customers don't do anything there other than sit on sofas and relax," an interviewee said. "Gone are the days when all activities must be driving income."

This also extends to setting aside a meeting place for specialist groups such as readers and knitters. In one case, just being the meeting point for a running club helps. "They meet in the middle of the scheme and then you go running every day," an interviewee said. "Is that a community use? Do we do anything to facilitate it? No, but it is kind of happening on the back of what we try to do and what we are trying to be."

There are lots of positive vibes around the community amenities trends, but a debate is still needed over whether such uses can counter the loss of financial revenue to take on amenities on lower rents and with weaker covenants. "The hope is they're financially lucrative, but they are probably not the most lucrative option today," an interviewee said. "But it is for the wider support of a long-term benefit."

"There will be sites that we will be looking at and going on full mixed use. . . . It could be a corporate office on the side or it could be a residential use, because if it is mixed, there is a loyalty to a scheme."

"Gone are the days when all activities must be driving income."

6. Investment impact

The addition of nonretail might bring new energy to shopping centres, but behind the scenes owners need to consider the long-term investment performance of shopping centres as well as the metrics on which they should be assessed.

Many of the new uses are taking space at lower rents and with a range of tenant covenant strengths, which means that investors may have to face a structural shift in what they can expect from their centres in the long run. "They will have to accept that reality is changing because consumer behaviour is changing," said one interviewee. They can't expect certain centres to perform the way they used to. The structural decrease will be visible for a wide range. Only a few will be able to adapt."

The addition of nonretail has so far seen benefits for larger centres, which can make destination F&B and leisure work, while at the smaller end, community uses can bolster performance. One of the main problems will be the middle.

"Prime centres have multiple choices offering leisure and retail under one roof. Then on the flipside, you have the discount retailers that won't move online, so consumers have to go into them," an interviewee said. "The stuff in the middle, that's difficult to see how to achieve rental growth and traction."

Another agreed that the middle ground will be the most difficult. "I think you have got the mid-tier centres, which have neither scale or offer to be dominant nor are truly accessible to be convenient, whether they are new or old," the interviewee said. "That is a group that is particularly under stress."

"There is a challenge, or a tension, between what we might do as an owner and what our valuers feel comfortable in putting a value on."

There are also concerns that the rising tide of the economy has helped some centres artificially. "I think this is also a temporary solution because the economy is improving," an interviewee said. "This means the structural underlying problems will get masked again. As things improve in some centres, it is partly economic recovery and partly real improvements. Time will tell."

Those with larger centres have reported a positive effect from nonretail on their retail leasing strength. "We're seeing longer leases and much lower incentives," said one. This empathises the relative strength that dominant centres have in the market.

Interviewees agreed that leases for leisure had remained long to take into account the time need to write down the fit-out. For F&B, ten years was still popular but they were getting shorter, a choice from both sides: operators did not want to be tied in to too long a lease while owners wanted the ability to be able to keep refreshing their F&B lineup.

One interviewee also reported that a shrinking differential between leisure rents and retail rents could help leisure in larger centres. "We have seen rental growth in retail weaken, so the total rent you might pay for a 3,000 square foot place for A3 [restaurant use] and A1 [retail] is pretty similar now, and that hasn't traditionally been the case."

However, being large does not come without its problems. In trying to maintain net operating income, one interviewee has looked at actually adding space to improve the offer and preserve income. Depending on the centre, F&B operators might pay 30 to 40 per cent less for a similar-sized space while leisure could be less than that. "That's why we will see resistance from asset owners to use existing space taken by fashion retailers," the interviewee said. "That's actually going to decrease income. Instead, we are adding space."

Smaller centres tend to not have this luxury and may be forced to fill space once occupied by retailers. "If you had a centre with occupancy issues, you might decide to take a call on [losing retail space] if you are not getting traction with retailers," an interviewee said. "Then you are making a decision to accept permanently lower NOI [net operating income]. A lot of asset managers are forever optimists and don't want to be making that decision."

These changes raise the question of how centres will be valued in the future. "There is a challenge, or a tension, between what we might do as an owner and what our valuers feel comfortable in putting a value on," said one interviewee. They spoke to a retailer which confirmed that they were starting to see physical space as a showroom to look around. "Their sales were okay but not great. That was all right for them because it was not about selling in that moment: [customers] were going to be buying through them or another channel later."

This could begin a discussion on the metric of success for retailers, but also links back to the role that nonretail is playing. “We would love to respond by charging them on so much per visitor, because it’s not about sales for them. Our job is to bring people to the door,” said one interviewee. At present, any moves to more innovative types of metrics are prevented by the traditional approach to valuation.

Others suggest it should also be a conversation that even challenges the price-per-square-metre approach. “The currency of tomorrow is minutes per guest,” said an interviewee. “A valuer knows that a place only has a value if it has people in it. It’s about places for people, the number of minutes spent, how they are moving around a centre.”

While these new targets continue to become increasingly relevant, it may be a harder message for investors. “It will be a tough time convincing investors,” an interviewee said. “They’ll say: ‘I get it, but here’s my valuation on the stock market.’ The consumer has moved away from buying stuff to experience, but you can’t capture experience and put it into a viable project.”

“The currency of tomorrow is minutes per guest. A valuer knows that a place only has a value if it has people in it.”

A valuation view

Christian Luft, Director - Valuation Advisory, JLL

This report highlights substantial changes to the way shopping centres are run. To reflect these changes, valuers need to adapt their practices and move away from traditional approaches to valuation. As investors are now embracing and promoting increased leisure and F&B at potentially lower rents—and accepting weaker covenants to improve identity of centres and create new experiences for consumers—valuers need to follow.

The aim of investors is to attract longer visits from guests, leading to growth in sales and, ultimately, increased values. Valuers should take this perspective into account and value these assets on a cashflow basis to better reflect future performance and forecasts. While this practice is commonplace in many European markets, the data behind it remains opaque, though in other markets, such as the US and Australia, this is not the case. It is therefore necessary for more data to be made readily available in order to correctly assess the impact of these trends and what owners and asset managers are trying to achieve. In this way, the true value of these initiatives can be more accurately reflected.

7. Conclusion and next steps

This report has reviewed the topics raised as shopping centre owners examine their options to improve shopping centre performance by including F&B, leisure, and community amenities in their centres.

The results of the research suggest that shopping centres are making the right decision to increasingly incorporate nonretail tenants in order to reinvent themselves in the face of rapidly changing consumer behaviour and the rise of e-commerce. However, despite the popularity of this strategy, there is no clear one-size-fits-all approach; rather centres must take a bespoke approach based on their location and customer base. An additional challenge going forward will be how to update traditional approaches to valuation to reflect the new world of retail.

A year on from the first study, shopping centre owners are finding F&B, the traditional mainstay of nonretail tenants, difficult to get right. The challenges of determining the optimal size of the F&B offer for a centre, as well as how to select sustainable operators in an over-supplied market, may lead to some fallout in the next few years.

For larger centres, leisure continues to be an expected part of the mix, but the range of operators is still limited. Cinemas are still the most reliable, with gyms also providing the benefit of taking up larger units and encouraging footfall and dwell time.

A new category of tenant, community amenities, is emerging as useful for smaller centres in particular. Centres are considering medical businesses as well as more public service-oriented uses. For now, the take up of these types of tenants by owners is largely opportunistic. However as more evidence emerges of the benefits of including these types of uses, such as building identity and regular visitor patterns, we are likely to see shopping centre owners and operators taking a more strategic approach to incorporating community tenants.

These changes bring benefits for centres but have repercussions for the investment value and long-run performance of centres. One point of discussion between owners and investors is the metrics on which performance is measured. With retailers now content to see sales go online, the emphasis for owners would appear to be more about dwell time and footfall.

The ULI Europe Retail and Entertainment Product Council is keen to continue this piece of research and will work to build a larger database of centres, in order to both track emerging trends in this fast-moving area, and to provide a better evidence base to support decision makers in the retail sector.

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