



Retail Property *insights*



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Global Retail Real Estate Transparency

Tracking Broad Improvements in World Retail Markets in the Last Four Years

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Abstract: *The Global Real Estate Transparency Index (GRETI) is a measure designed by JLL and LaSalle Investment Management to assess the availability of information and regulatory risks specific to real estate in markets around the world. The authors have updated an article published four years ago that adapted this index to focus expressly on retail real estate. After explaining how this retail transparency measure can be used, the authors discuss changes in national rankings over the last four years and review trends affecting transparency. In addition, they analyze drivers of transparency and the relationship between development and transparency; and transparency and retail inventory.*

Introduction

Entering a new country can be a transformational event for a retailer or a real estate investor. Done properly, it can take advantage of existing brand strength or better market opportunities, resulting in improved financial performance. Done improperly, international expansion can damage existing brands or produce negative financial results. Among the many issues to consider when entering or expanding in a foreign market is the transparency or opacity of the real estate market.

Real estate market transparency refers to the availability of market and regulatory information pertaining to the real estate market. Highly transparent real estate markets are ones with extensive, detailed and regularly updated information on real estate pricing, fundamentals and capital markets. Highly transparent markets also have predictable regulatory regimes, providing market participants with relatively high certainty around issues like taxes, contract enforcement and even future construction.

The JLL Global Real Estate Transparency Index (GRETI) assesses real estate transparency in markets around the world on a biannual basis. The most recent version was compiled and released in mid-2014. Further information on Real Estate Transparency can be found on the GRETI website: www.jll.com/GRETI.

Four years ago in this publication, analysts from JLL provided an overview of GRETI and re-weighted the index to focus on retail real estate.¹ Working with the newly released (2014) GRETI, this article again analyzes

historical and current GRETI scores, focusing specifically on retail real estate. Using these re-weighted scores, the authors examine:

- The relative transparency of different markets and what changes have occurred to impact transparency;
- The relationship between retail real estate transparency and development; and
- The drivers of retail real estate transparency.

Understanding retail real estate transparency will help retailers and investors better understand the risks inherent in various countries and compare those risks with those in their home markets. It can also help new market entrants understand where local knowledge and expertise will be most critical. Finally, it can help identify markets where the lack of transparency may contribute to excessive risk levels.

Retail Real Estate Transparency Scores

Retail real estate transparency scores for the major countries of the world appear in Table 1-1. Lower scores indicate more transparent markets, with the best possible score being a 1.00 (highly transparent) and the worst possible score being a 5.00 (opaque). More information on scoring methodology can be found in the Appendix to this article.

For 2014, retail transparency scores ranged from a high of 1.22 (highly transparent) for the United Kingdom to 4.63 (opaque) for Libya. Similar to the 2011 findings,

* JLL, LaSalle Investment Management, Inc.

¹ William Maher, Daniel Mahoney, Keisha McDonough, and Melissa Reagan, "Global Retail Real Estate Transparency: Balancing Opportunity—and Risk—in World Retail Markets," *Retail Property Insights*, Vol. 18, Issue 2, 2011, pp. 9-19.

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Western European countries, the United States and Canada dominate the high end of the ranking, while Middle Eastern, African and Latin American countries generally rank lower. Asian and Eastern European

countries score mostly in the transparent or semi-transparent categories. The top-tier cities in all the BRIC (Brazil, Russia, India, China) economies fall into the “semi-transparent” category, as do the majority of MINT (Mexico, Indonesia, Nigeria, Turkey) economies. This ranking indicates that the BRIC and MINT economies have made some strides toward retail real estate transparency, but still have further to go.

The transparency scores of some of the more developed Asian countries—in particular Japan, but also South Korea—are lower than expected. Japan’s score is in the “transparent” category, but just barely; it ranks below several less-developed Eastern European nations, as well as South Africa. This poorer score is due largely to the limited availability of retail market data in Japan. Unlike most developed markets (and many undeveloped markets), Japan lacks time-series data on retail absorption, stock, vacancy, and capital values even in its largest market, Tokyo; it also lacks any data on leasing deals and has only a very limited database listing building stock. Retail market data are also notably absent in South Korea, and the limited public real estate market (small size, relatively late inception date) hurts the retail transparency score there as well.

Overall, the vast majority (87%) of markets made transparency improvements over the past four years. This improvement is in part a result of how the scores are calculated, with lower scores (higher transparency) awarded based on the longevity of real estate market data. All else being equal, a country with 20 years of history on retail rents is awarded a lower score than a market with 10 years of history.

Retail transparency improved more in some countries and regions than in others. The largest increases in transparency occurred in developing economies, due to rapidly improving regulatory environments combined with strong investment inflows. Some of the biggest transparency improvers are in Latin America, including Colombia, Brazil and Mexico. Colombia switched categories, moving from “opaque” to “low” transparency. All three countries saw small improvements across a wide range of transparency-related issues, with the greatest score improvements in the legal standards category—particularly the role of the financial regulator. In addition, Mexico’s score improved due to better accounting standards of listed vehicles. Transparency for listed vehicles in Mexico has increased significantly in recent years, after the success of the first Mexican FIBRA led to rapid expansion of the public market.

Several large, developing Asian economies—India, Indonesia, and China—had a meaningful improvement in

Table 1-1
2014 Retail Real Estate Transparency:
Selected* Markets

Transparency Level	2014 Retail Transparency Rank	Market	2010 Score	2014 Score
High	1	United Kingdom	1.38	1.22
	2	United States	1.3	1.33
	3	Australia	1.51	1.39
	5	Netherlands	1.47	1.55
	6	Canada	1.62	1.56
	7	Ireland	1.87	1.57
	8	France	1.81	1.63
	Transparent	11	Germany	1.98
12		Singapore	1.92	1.83
13		Hong Kong	1.85	1.86
14		Sweden	1.91	1.88
15		Belgium	2.15	1.88
17		Spain	2.01	1.92
18		Italy	2.09	2.09
19		Poland	2.32	2.1
20		South Africa	2.41	2.1
23		Czech Republic	2.47	2.19
Semi-Transparent	25	Hungary	2.54	2.2
	27	Japan	2.55	2.34
	28	Brazil - Tier 1	2.95	2.54
	29	Turkey	2.86	2.56
	34	China - Tier 1	3.02	2.7
	37	India - Tier 1	3.16	2.79
	38	Russia - Tier 1	2.94	2.81
	40	Indonesia	3.17	2.84
	42	South Korea	3.15	2.97
	45	Mexico	3.43	3.03
	49	UAE - Dubai	3.21	3.1
	55	Chile	3.33	3.27
Low	65	Saudi Arabia	3.73	3.57
	66	Peru	3.93	3.58
	68	Colombia	4.11	3.61
	71	Vietnam	3.97	3.66
	73	Egypt	3.8	3.7
Opaque	87	Venezuela	4.18	4.18
	91	Algeria	4.62	4.24
	102	Libya	n/a	4.63

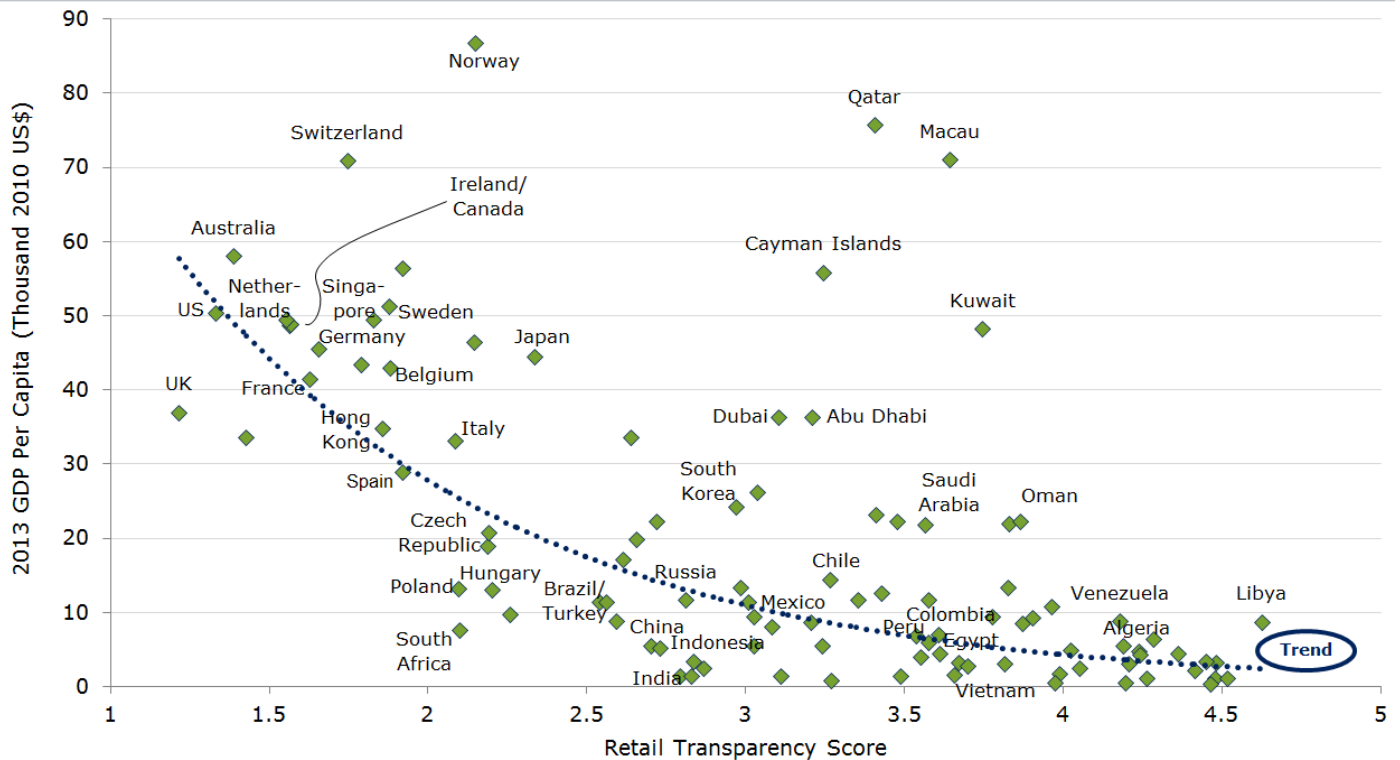
*Major and representative markets only; 65 more markets available.

NOTES: 1) UAE=United Arab Emirates; 2) In Brazil, China, India and Russia, the Index differentiates between primary, secondary and tertiary cities. Tier 1 cities include the primary cities in each country.

Sources: JLL, LaSalle Investment Management

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Chart 1-1
Gross Domestic Product Per Capita and Retail Transparency



Note: Major/representative markets and outliers labeled. Sources: JLL, LaSalle Investment Management, Oxford Economics

retail transparency, although none changed transparency categories. For the most part, improvements in Asia were due to many small improvements in a large number of retail transparency categories as the regulatory environment strengthened and international investment increased.

Retail Real Estate Transparency and Development Level

Retail real estate transparency is highly correlated with a country’s level of development. As discussed above, developed markets in Western Europe and North America dominate the top retail transparency rankings, while developing economies such as Egypt and Venezuela are among the lowest-ranking countries in terms of retail transparency. Nonetheless, there are important outliers worth discussing.

Chart 1-1 shows the relationship between gross domestic product (GDP) per capita—a common proxy for level of development—and retail transparency. While countries with high GDP per capita levels consistently

have high retail transparency, countries with relatively low levels of development have a much wider range of transparency. As shown below, countries with GDP per capita of less than U.S. \$10,000 in 2010 dollars have scores between 2.2 (transparent) to 4.6 (opaque) on the transparency score range.

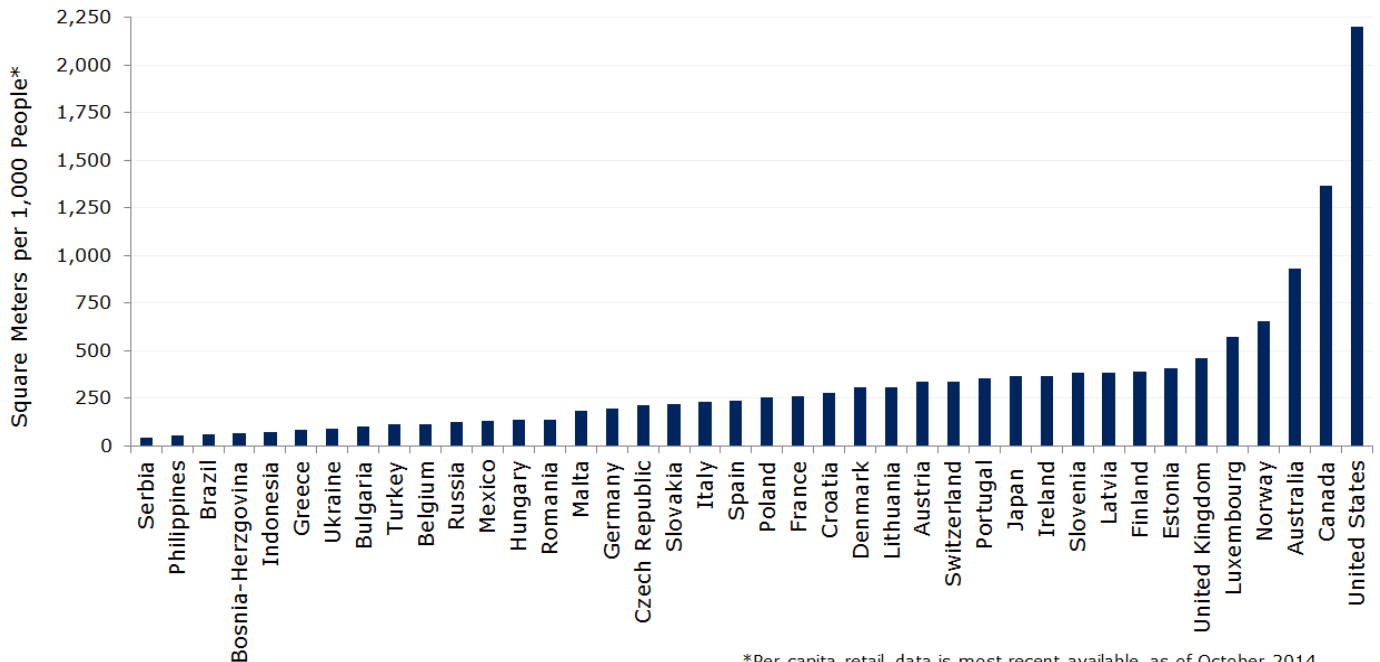
This finding has two important implications. First, in countries for which low retail real estate transparency is a barrier to entry for international retailers and investors, higher transparency can be achieved without significant increases in the level of development. Countries can improve transparency through policy change, better data collection, and stronger professional organizations. Second, retailers and investors may find that some markets are able to provide adequate levels of regulatory certainty and market information to support investment despite relatively low levels of development. In short, there are many paths to transparency besides greater per capita income levels.

Additionally, there are some economies of scale around the collection of market data that might be reflected in

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Chart 1-2

Shopping Center Space Per Capita for Selected Countries



*Per capita retail data is most recent available as of October 2014.

Source: JLL, LaSalle Investment Management

the transparency index—increasing scores in developed countries and lowering them in less developed countries. For example, the presence or absence of building stock data affects the retail transparency score. Developed markets tend to have more formal retail space, making it easier to collect data on building stock, whereas developing markets tend to have mostly informal retail space. This relative ease of data collection is likely reflected in the transparency index, boosting the rank of developed countries with more formal retail stock (higher stock per capita) and limiting the rank of undeveloped countries with more informal retail stock (lower stock per capita). (See Chart 1-2.)

Drivers of Retail Real Estate Transparency

Chart 1-3 examines the relationship between retail real estate transparency and cross-border retail investment. The two are slightly positively correlated, with countries with higher cross-border transaction volume relative to their share of world GDP also generally achieving better transparency scores.

European countries have high cross-border retail investment relative to their share of global GDP across all levels of retail transparency. This is likely due to the

small size of many European nations combined with the economic integration facilitated by the European Union (EU). Both Bulgaria and Poland, the two largest outliers on Chart 1-3, are EU members, as are most of the countries on the upper-right quadrant of the graph. This provides further evidence that EU membership facilitates foreign investment.

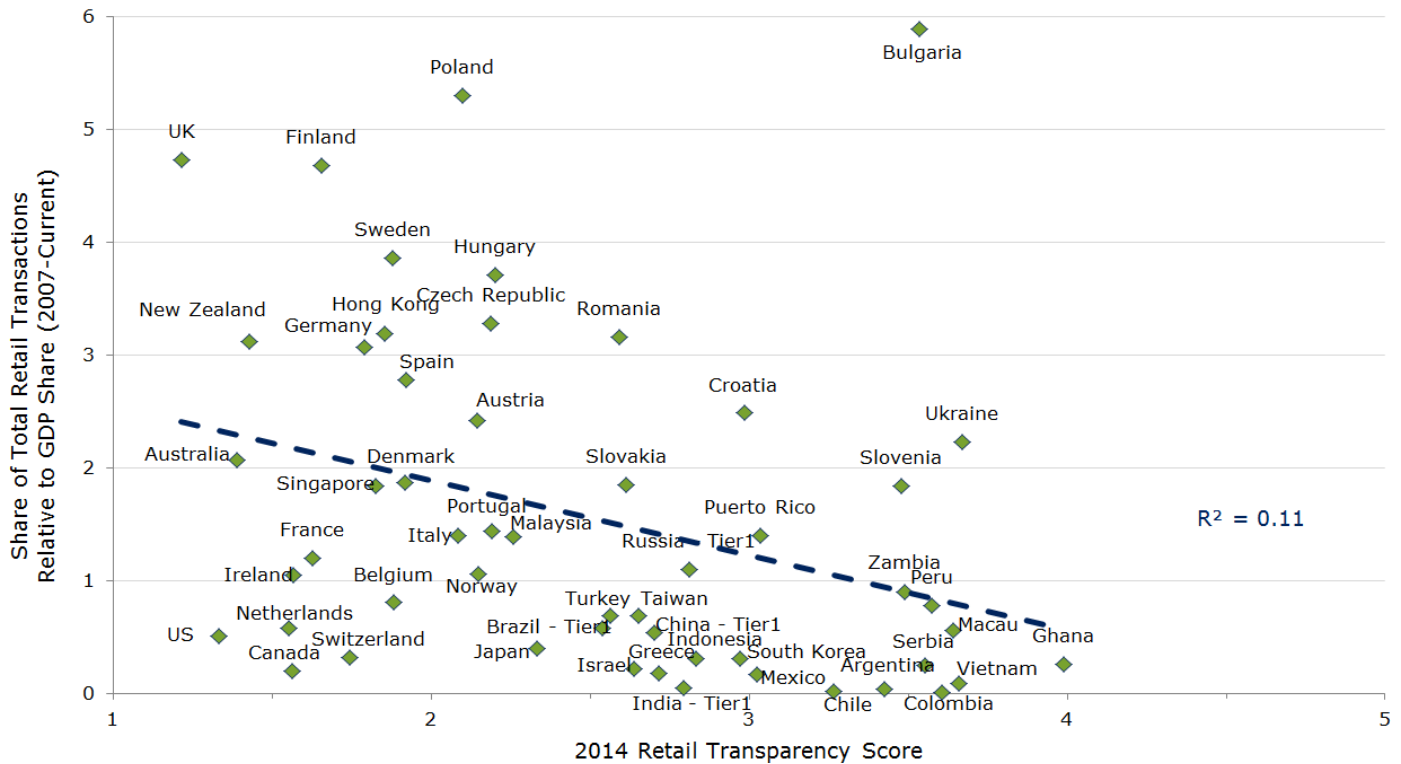
Retail transparency and retail real estate investment are likely synergistic, with foreign investment creating demand for better real estate transparency, which facilitates greater foreign investment in turn. The ongoing globalization of retail companies and brands likely interacts with transparency in a similar way. As retail becomes more global, brands expand to different countries, demanding better retail real estate transparency, which, once achieved, lowers the barriers to entry for additional international retailers.

Retail is increasingly global. According to Deloitte, 55 of the top 250 retailers operate in 10 or more countries, with the average retailer on the top 250 list operating in 9.4 countries.² In contrast, in the 2010 report, 48 of the top 250 retailers operated in 10 or more countries, with the average retailer on the list active in just 6.9 markets. Deloitte reports that fashion retailers among the top 250

² Deloitte, *Global Powers of Retailing 2014: Retailing Beyond Begins*, retrieved October 28, 2014.

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Chart 1-3
Cross-Border Retail investment Flows and Transparency



Sources: JLL, LaSalle Investment Management, Real Capital Analytics

are the most globalized retail sector, with almost 30% of revenue in that sector coming from foreign operations and an average of 22.2 countries of operation per retailer.

Fast-fashion retailers have been the dominant retailer type pursuing rapid international growth in recent years. H&M, Zara, Uniqlo, and Mango had all begun their global expansion plans four years ago, when global retail transparency was last discussed in these pages. Those expansion plans have proceeded with relative success over the past four years, and since then other fast-fashion operators have initiated expansion plans, including Primark, Topshop and Joe Fresh. As these retailers expand to new markets, they will bring expectations for greater retail real estate transparency, helping to drive transparency gains in markets with lower retail transparency.

Conclusion

Retail real estate transparency is a key factor to consider when operating in or entering new retail markets. While high transparency levels are clearly correlated with high levels of development, middle levels of transparency are observed in some countries with relatively low levels of development. Cross-border investment is also correlated with high levels of transparency, although it is just one of a wide range of factors influencing investment decisions. As retail becomes increasingly global, the emphasis on retail real estate transparency is likely to grow. The JLL Global Retail Real Estate Transparency Index can help investors and retailers better understand transparency in foreign markets and better evaluate strategic business decisions.

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Appendix – GRETI Technical Note

The JLL Global Real Estate Transparency Index is based on a combination of quantitative market data and information gathered through a survey of the global business network of JLL and LaSalle Investment Management across 102 markets. For each market, 78 separate factors, both quantitative datapoints and survey questions, were used to calculate the composite score. The survey data and quantitative measures complement each other. For instance, knowing the market coverage and length of a country's direct real estate index is only one half of the story; for a complete picture, qualitative data were also gathered on whether investors actually trust and use the index. Local research teams, in consultation with business leaders and real estate professionals active in each market, complete the survey.

As before, the 2014 Index continues to break general questions into more specific, granular components. For example, rather than the single question on valuation quality in 2012, three questions are asked in 2014: the independence of third-party appraisers; the extent market-based appraisal methods are used; and the competition in the market for third-party appraisals. These changes allow the JLL team to drill deeper into where markets differ and to reduce measurement error by making the overall scoring less reliant on any single factor.

Quantitative Factors

Approximately one-third (19 of the 78 scoring factors), accounting for 35.5% of the overall factor weighting, are quantitative. These quantitative factors, added to the Index in 2012, include the number of years that fundamentals' data series (like vacancy) have been available, the market coverage of property return indices, and the free float of public listed real estate securities markets. We score most of these quantitative factors on a continuous scale from 1 to 5, with 1 indicating very high transparency. For datapoints on performance measurement indicators, such as the market coverage of property return indices, the top score of 1 has been set to equal to the 90th percentile observation in 2012. The cut-off thresholds to qualify as a "highly transparent" market have been fixed at their 2012 level, so that markets can improve to higher tiers over time. For datapoints on market fundamentals data, such as the length of a market's office vacancy series, the top score of 1 has been set to equal to a time series of 30 years or more, which can be viewed as the "gold standard."

Researchers at JLL and LaSalle Investment Management have collected detailed data on the available market fundamentals' time-series for each of five property types: office, retail, industrial, residential and hotels. All available data series have been included, not only those produced by JLL. The market fundamentals data are based on conditions in the principal city of each country, with the exceptions of Brazil, China, India and Russia, where the Index differentiates between primary, secondary and tertiary cities.

Data on property-level returns indices are from Investment Property Databank (IPD), NCREIF and other industry associations. Data on public listed real estate comes from the European Public Real Estate Association (EPRA), Bloomberg, NAREIT and the LaSalle Investment Management Securities group. Fund-level index data are primarily from INREV, NCREIF, IPD and ANREV.

Qualitative Survey Factors

The balance of the scoring factors, totaling 59 datapoints, are qualitative survey questions scored by local JLL and LaSalle Investment Management teams. For each, local research teams are provided with a detailed rubric of five answer choices, ranging from 1—most transparent—to 5—opaque. Based on where their market fits within that rubric of options, local experts assign a score. Respondents consult JLL's local accounting, finance, asset management and legal experts to inform their responses to questions in those topic areas.

Scores within each region are reviewed by regional and then by global coordinators to ensure objectivity and rigor. Global and regional reviewers interrogate country teams' responses and challenge teams to justify changes in question scores from prior updates. The review process, high level of detail provided in the answer choices, and improved question granularity reduce subjective bias in scoring, and all contributors strive for impartiality in their responses.

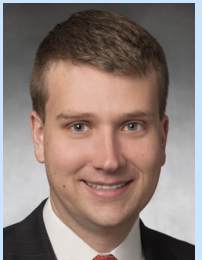
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Chinese High-Tech Hub Experiences

Robust Retail Growth

*First-Time Study on Shopping Center Development,
Sales and Operations in Shenzhen*

THOMAS TIAN* *and* THE SHENZHEN RETAIL BUSINESS ASSOCIATION

Abstract: Shenzhen in southern China has grown from a tiny village to one of the world's largest cities in only three decades. This report, based on a survey by the Shenzhen Retail Business Association (SZRBA), offers a first-time look at how this business and population growth is now being reflected in its shopping center industry. It demonstrates that, while occupancy and rental rates are high, a disparity exists between its best-performing centers and the rest, and that operating costs remain high.

Introduction

From a fishing village only 30 years ago, Shenzhen has become a high-tech hub, one of the most rapidly expanding population centers in the world, and an inviting target for retail development in southern China's Guangdong Province. It benefited from an advantageous geographic position (immediately north of Hong Kong) and designation as its nation's first Special Economic Zone in 1979 to become China's answer to Silicon Valley and the third-busiest container port in the country.¹

By the end of 2013, there were 46 shopping centers² in Shenzhen with a total floor area³ of 3,048,000 square meters (sq m), or an average of 66,216 sq m. But the pace of construction is so rapid that even this number will swell shortly—not surprisingly, as it reflects the urge to capture sales in a residential population that reached 10.6 million people by year-end 2013.⁴ More than 25 centers were under construction in 2014 with a floor area exceeding 2,000,000 sq m. The total number of shopping

centers open could be 70 in 2015 with a total floor area of more than 5,000,000 sq m.

This article reports the results of a first-time, detailed survey by the SZRBA of shopping centers operating in the region.⁵ The data show that occupancy rates of most shopping centers in Shenzhen are currently above 90%, with their rents increasing year over year. However, in contrast to these gains in occupancy and rental rates, only a comparatively few centers experienced sales growth in 2013 compared with the prior year. In addition, the survey indicates that operating expenses in most shopping centers were much higher than the prior year, which reduces their profitability.

Shopping Centers at the Heart of Shenzhen Development

In the next decade, redevelopment will represent the main form of real estate development in Shenzhen. Most of these projects will be what is generally known in the West as "urban mixed-use centers," in which retail is one

* Director, SCD Information Co., Genesis Group

¹ See Tom Whitwell, "[Inside Shenzhen: China's Silicon Valley](#)," *The Guardian*, June 13, 2014, retrieved December 6, 2014.

² The term "shopping center," as defined by China's Ministry of Commerce, is: "Multiple retail stores and service facilities arranged in a single property or place as a retail complex, which contains comprehensive services for customers. This retail complex usually contains dozens—even hundreds—of stores comprised of supermarket, specialty store, exclusive agency, food and beverage store, grocery stores, entertainment, fitness and leisure facilities." See Appendix 2-1 at the end of this article for a complete list of these centers in Shenzhen.

³ In China, the statistical unit area for a shopping center is usually represented by "floor area." Floor area ratio is one of the restrictive conditions permitted by government authorities for building construction. Common areas are included in floor area and floor area ratios. Leasable area is seldom used in the official statistics. The statistical area, therefore, represents the floor area of shopping centers listed in the report.

⁴ "[Shenzhen Government Online—General Info: Overview](#)," retrieved December 12, 2014.

⁵ *The Report of Shenzhen Shopping Center Development 2013*, co-written by the Shenzhen Retail Business Association (SZRBA) and Shenzhen Genesis Consulting Co., received major assistance from members of the association and from shopping centers in Shenzhen. The authors would like to express their thanks to all of these individuals.

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of the most commonly found property sectors. Community centers are the frequently found types of shopping centers in these mixed-use projects.

1. Development

1) Shenzhen Development, 2011-2013

From the first project 12 years ago, the shopping center industry in Shenzhen reached 46 centers by the end of 2013, with 12 opening in the latter year alone.

The latter growth spurt came at the end of a period of particularly high development from 2010 to 2013. Gains in the number of shopping centers over the prior years exceeded more than 30% for both 2011 and 2013, with the increase relatively more restrained in 2012 (17%). Those double-digit gains were repeated when it came to floor area, too (23% in 2011, 13% in 2012 and 39% in 2013. (See Chart 2-1.)

One example of the development surge in 2013 was 1234space, also known as Mini Mix City. This 18,000-sq m center, owned by China Resources Land Holdings, opened in October 2013 in Dongmen, the oldest trade area in Shenzhen. Except for well-known fast-fashion tenants such as H&M, Gap and Monki, it has also leased space to such new brands as earth music & ecology, Chictopia and

My Play. In addition, this “mini shopping center” includes on its tenant roster a restaurant from Hong Kong and a bookstore from Taiwan (a first for South China).⁶

Located at the heart of the Pearl River Delta, Shenzhen’s shopping centers hope to benefit both from business travelers and a burgeoning middle class. Of the 12 shopping centers that opened in Shenzhen in 2013, four were located in the Luohu and Nanshan districts. The remaining eight were located in the Baoan, Longgang and Longhua Districts, outside the former Shenzhen Special Economic Zone—the same region where most of the 25 new centers are scheduled to open. The first shopping center in the Yantian District, Yihai City, opened in 2014. According to criteria for shopping center types issued by China’s Ministry of Commerce, most new projects to be built in Shenzhen in the coming years fall into the community and regional shopping center classifications.⁷ (In fact, half of the 12 centers that opened in Shenzhen in 2013 came from the community category alone.)

In short, overall operations of shopping centers in Shenzhen are basically sound, as demonstrated by healthy occupancy rates, rental income and shopping center sales.

2) Distribution of Existing Shopping Centers

Shenzhen’s 46 existing shopping centers are concentrated in six administrative districts. There is currently no center in the three administrative districts in the east (Dapeng, Pingshan and Yantian) or the northwestern district of Guangming. (These are new districts, rezoned from old ones, and had been industrial areas without shopping centers before.)

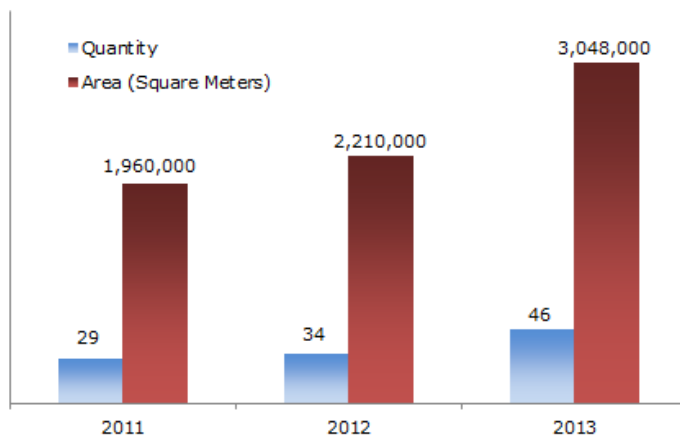
Most new shopping centers that opened in 2013 were concentrated in two districts experiencing especially intense overall real estate development, Baoan and Longgang. (See Map 2-1.)

3) Three Shenzhen Shopping Centers With the Most Sales, 2013

Table 2-1 provides a breakdown of the three shopping centers with the most sales in 2013.

Chart 2-1

Size of the Shopping Center Industry,
2011-2013



Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

⁶ Cushman & Wakefield, “Marketbeat: Retail Snapshot—Shenzhen, China,” Q4 2013, retrieved November 25, 2014.

⁷ According to definitions of shopping center types provided by China’s Ministry of Commerce, the following criteria fit **community shopping centers**: *Function*: to arrange necessary food and leisure facilities and services to provide for the everyday needs of residents. *Location*: in the center of the residential area or around it, with convenient public transportation. *Gross floor area*: 10,000 to 50,000 sq m, excluding parking spaces. *Trade area*: over 3 kilometers (km) in diameters in large and mid-sized densely populated cities. *Type of property*: mainly enclosed. As for **regional centers**: *Function*: Shopping, food and beverages, leisure and services, offering a wide range of commodities and services that can be accomplished in a one-stop shopping trip for different income levels. *Location*: In a new area of the city or a commercial center of a binding region (i.e., urban or rural area zoned for administrative purposes), or community center, by a main trunk road or city traffic node. *Gross floor area*: over 50,000 sq m excluding parking space. *Trade area*: Over 5 km in large and mid-sized densely populated cities. *Type of property*: mainly enclosed.

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Map 2-1

Concentration of Shopping Centers in Shenzhen



Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

Table 2-1

Shenzhen Shopping Centers With the Most Sales (2013)

	Name	Floor Area (Square Meters)	District	Sales RMB/year (000,000)
1	Mix City	159,000	Luohu	6,100
2	SCP Plaza*	92,000	Futian	2,800
3	Coastal Plaza	120,000	Nanshan	2,000

* A Sam's Club is calculated into the sales of this center.

Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

4) Five Largest Shopping Center Owners

Some companies in Shenzhen have started not just developing projects, but also managing their own shopping centers and even buying properties.

As seen in the list of the top five shopping center owners with properties in Shenzhen in Table 2-2, the major players in the industry differ in the geographic scope of their operations. Less than 10% of the space for the largest company, SCP, is located in Shenzhen itself. In contrast, holdings for the Kingkey Group are concentrated entirely in Shenzhen.

Nor do these owners concentrate on a specific type of center. Four of the five are principally residential developers who have broadened their focus to commercial properties. Only SCP develops and owns purely retail properties. (Blackstone is a partner of SCP.)

5) Five Largest Shopping Centers

Square meters for new centers averaged 76,300 in 2013, a pace surpassed only by the 91,300 sq m average maintained in Shenzhen in 2007. Not surprisingly, both

Table 2-2

Five Largest Shopping Center Owners Present in Shenzhen

	Name	Shenzhen (Square Meters)	Other Cities (Square Meters)	Total (Square Meters)
1	SCP	102,000	968,000	1,070,000
2	China Resources	159,000	847,000	1,006,000
3	Kaisa Group	200,000	600,000	800,000
4	Kingkey Group	500,000	N/A	500,000
5	Galaxy Group	380,000	100,000	480,000

Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

years claimed two of the five largest shopping centers in Shenzhen at year-end 2013, as evidenced by Table 2-3.

2. Operating Status

1) Occupancy rates and rental yields

By the end of 2013, shopping centers in Shenzhen had not only grown in quantity and floor area, but also greatly improved in quality. One of the most important indicators

Table 2-3

Five Largest Shopping Centers in Shenzhen

	Name	Area (Square Meters)	District	Open
1	Haiya Mega Mall	170,000	Baoan	2013
2	Mix City	159,000	Luohu	2004
3	Shajing Banner Center	127,000	Baoan	2013
4	Coastal City	120,000	Nanshan	2007
5	Yijing Central Walk	110,000	Futian	2007

Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

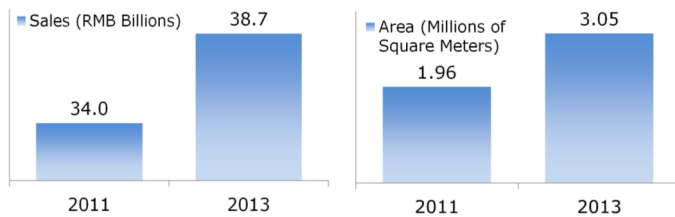
of this were the higher occupancy rates and increasing rental income for most centers. This was especially the case for centers in the Futian, Nanshan and Luohu districts.

For example, the occupancy rate of Mix City, with a high-end customer base, reached 97.4% just one year after the center's 2004 grand opening. Its occupancy rate has remained at 99% since 2006, with increased rental incomes year after year.

In 2013, the average occupancy rate for Shenzhen shopping centers was 88.9%, but the annual occupancy rate for most centers surpassed 90%. The lower average annual occupancy rate was caused by several problematic centers and others that may have still been considered ultimately viable though they opened with low occupancy rates.

The annual average occupancy rate of over 90% showed real demand for shopping centers in Shenzhen, as

Chart 2-2
Shenzhen Floor Area and Sales, 2011-2013



Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

well as a high consumption level, making the market attractive to premium tenants.

2) Sales

In 2011, sales in Shenzhen shopping centers totaled RMB 34 billion, which accounted for 9.7% of the RMB 352.1 billion spent on retail sales for consumer goods that year; in 2013, sales for the industry reached RMB 38.7 billion, which comprised 8.7% of the RMB 443.3 billion spent that year in the area on consumer goods. (See Chart 2-2.)

The floor area of shopping centers in Shenzhen was 3.1 million sq m in 2013 compared with 2 million sq m in 2011—a 57% increase. However, shopping center sales advanced only 13.8% and those of “social consumer goods excluding house sales” (i.e., similar to “retail sales” in the United States) 25.9% in this two-year period.

Shenzhen shopping center sales productivity in 2013 suffered because of some problematic projects that pulled down average sales in the city. In addition, other factors (e.g., declining macro-economic growth, online shopping and public-expense governance⁸) negatively affected shopping center sales in 2013.

It should be noted that premium shopping centers (e.g., Mix City, Sun Plaza, Coastal City, and Futian Coco Park) continued to perform well. For example, Mix City increased average annual sales per sq m of RMB 38,000, while more poorly managed centers gained only RMB 2,000 in 2013, over 10 times less.

3) Changes in Tenant Mix

Many shopping centers in Shenzhen began to optimize their tenant mix, adapting to market changes from 2010. They gradually terminated contracts with large and

underperforming tenants (such as those selling large appliances, home decorations and apparel). Over time, these stores, which had been leased around the time of their centers’ openings, were supplemented with more popular tenants that could produce higher rents, such as restaurants, recreation, children’s education,⁹ and fast-fashion brands. For example, SCP Plaza replaced an electronics store whose contract was expiring with three new tenants (two restaurants and a training center), doubling rents in the process.

Coco Park serves as an intriguing case study in optimizing tenant mix. In 2010, the dining area occupied 35% of the center’s total leasing area, a much larger share than that of most large centers in Shenzhen. By the end of 2013, the dining area’s proportion of the total leasing area had expanded to 41%. Adding on 5% allocated for theater and 7% for food and beverage tenants, the non-retail component of the total leasing area reached 53%. The remaining 47% of the space included 22% for the hypermarket JUSCO and 25% for other tenants, mainly apparel. With the occupancy rate of Coco Park remaining at 100% in recent years, rents have also increased during this period.

3. Problems in Shenzhen Shopping Centers

The SZRBA found during this survey that operating expenses in many shopping centers remained high for a long time. The electricity bill was the biggest expense, even exceeding salaries. Electricity consumption was 262 kwh/m²/year, or 14.3% of rental income.

Inadequate environmental protection policies and energy-saving concepts created during the design process have much to do with high operating costs. Architects training to incorporate such sound energy practices can do much to lower costs.

Conclusion

After several years of rapid development, sales growth slowed in some large shopping centers in Shenzhen in 2012 and 2013. Future sales gains can be achieved only by good management.

In 2013, the number of shopping centers continued to grow rapidly in Shenzhen. The good news was that most existing centers were in sound condition. Still, a number of problems emerged during the development and operation phases of several projects.

⁸ “Public-expense governance” refers to retail consumption by state-owned enterprises and government organizations. For many years, this type of retail consumption took a large portion of total retail sales in China until President Xi Jinping assumed office in 2012. His subsequent order strictly limited retail consumption by state-owned enterprises and government organizations.

⁹ Stores for toys, children’s education, entertainment and games.

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In 2014 and 2015, more shopping centers were expected to open in the city. This could bring more challenges not only to center owner-developers, but also to architects and other related parties.



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The Shenzhen Retail Business Association (SZRBA), founded in 1997, consists of 260 members, mostly large and mid-size retailers in the area. Sales of all retail members amounted to 80% of total retail sales in the city.

Appendix 2-1 Shenzhen Shopping Centers (2013)

	Center Name	District	Year Opened	Floor Area (Square Meters)	Occupancy Rate
1	King Glory Plaza	Luohu	2004	80,000	100%
2	Mix City	Luohu	2004	160,000	99.6%
3	Sun Plaza*	Luohu	2006	55,000	100%
4	Shun Hing Square	Luohu	2008	30,000	93%
5	Vicity Mall	Luohu	2010	60,000	100%
6	KK-Mall	Luohu	2010	83,000	99%
7	1234Space	Luohu	2013	18,000	97%
8	New Town Plaza**	Futian	2002	68,000	N/A
9	East Sea Plaza	Futian	2007	53,000	70%
10	Coco Park	Futian	2006	72,000	100%
11	Central Walk	Futian	2007	110,000	93%
12	SCP Plaza	Futian	2007	92,000	100%
13	Intown	Futian	2012	40,000	95%
14	Wongtee Plaza	Futian	2013	80,000	50%
15	Garden City Center	Nanshan	2006	70,000	100%
16	Coastal City	Nanshan	2007	120,000	100%
17	Poly Cultural Centre	Nanshan	2008	44,000	95%
18	YT Holiday Plaza	Nanshan	2008	44,000	98%
19	Xinhe Plaza	Nanshan	2008	34,000	38%
20	Kingkey Banner Plaza	Nanshan	2008	100,000	98%
21	Tiley Fame City	Nanshan	2010	23,000	N/A
22	Fun2	Nanshan	2010	32,000	82%
23	Qianhai Mall	Nanshan	2010	30,000	99%
24	O'Plaza	Nanshan	2013	78,000	40%
25	All City	Nanshan	2013	100,000	93%
26	GLC Shopping Center	Baoan	2006	70,000	100%
27	Hongfa World***	Baoan	2007	110,000	100%
28	Hongfa Lingyu	Baoan	2008	30,000	90%
29	Baby Town (Bihai)	Baoan	2010	65,000	85%
30	Baby Town (Jianan)	Baoan	2010	20,000	95%
31	Times City	Baoan	2012	50,000	N/A
32	Haiya Mega Mall	Baoan	2013	170,000	91%
33	Rainbow Mall	Baoan	2013	72,000	95%
34	Kingkey Banner Plaza†	Baoan	2013	127,000	85%
35	Wuzhou Mall††	Longgan	2005	114,000	10%
36	Zhijian Times Square	Longgan	2007	63,000	95%
37	Pengda Mall	Longgan	2011	37,000	90%
38	Vanke Honor Mall	Longgan	2011	36,000	40%
39	Coco Park	Longgan	2012	79,000	80%
40	ALL CITY	Longgan	2013	50,000	92%
41	Vanke Square	Longgan	2013	100,000	99%
42	H-One	Longgan	2013	20,000	90%
43	Shang He Fang	Longhua	2012	36,000	72%
44	Fashion-walk	Longhua	2012	23,000	98%
45	Zoll Xiangsong	Longhua	2013	55,000	98%
46	Zoll 1866	Longhua	2013	45,000	91%
	Total			3,048,000	

* Renovated from a department store

** Full renovation

*** Includes street shops

† Shajing

†† Assets transferring

Sources: Shenzhen Retail Business Association, Shenzhen Genesis Retail Consulting

Using Social Media Insights to Drive Shopper Engagement at the Mall

Quantifying U.S. Shopper Interactions With Facebook, Twitter and Newer Media Forms

ALAN MCKEON*

Abstract: *What are current social media trends in the shopping center industry? What are new opportunities for shopping centers to leverage social media? What can shopping centers learn from other industries facing similar issues? This article seeks to answer these questions, shedding light on the future of the industry and its relationship with social media.*

Introduction

As shopping center owners and managers deal with the technology and demographic changes that have transformed the industry, insights gleaned from social media for this study can be useful in identifying what drives shopper engagement at the mall.

Key Findings

Social Media Trends: The end of 2013 showed that growth in Facebook and Twitter use among shopping centers nationwide had plateaued, and by some measures, adoption rates began to decline. But 2013 saw growth in secondary social media outlets such as Instagram and Pinterest. These changes may signal a temporary or permanent shift in the way shopping centers interact with social media in the coming years.

Social Media Interaction: Shopping centers are editing the social media tools they use, but overall interaction with shopping centers is up. This inverse relationship presents an interesting opportunity for shopping centers to approach social media with an emphasis on attracting the consumer without oversaturating the social media market.

Learning from Other Industries: Like shopping centers, other industries must combat demographic and economic issues that have the potential to negatively affect their business. The integration of social media into the experience of skiing and snowboarding serves as a blueprint for changes that shopping centers can make to

maintain and strengthen their allure among a younger audience.

Current State of Social Media Use in the Shopping Center Industry

After gains from 2010 to 2012, year-end 2013 data revealed that 66% of shopping centers use Facebook, which is down from 72% compared to year-end 2012; and 56% use Twitter, which is down from 58% from year-end 2012.¹ (See Chart 3-1.)

Although the number of centers using these platforms has decreased, the content they are sharing is more engaging and is increasing shopper interaction. The average number of Facebook page "likes" rose 34% from 10,329 in 2012 to 13,820 in 2013. The total number of likes for the industry in 2013 was 17.2 million, up six million from 2012. As of year-end 2013, there were 1.4 million Twitter followers for the shopping center industry, which was up from just less than one million at the end of 2012. This results in an average of 1,573 followers per center as of December 31, 2013.

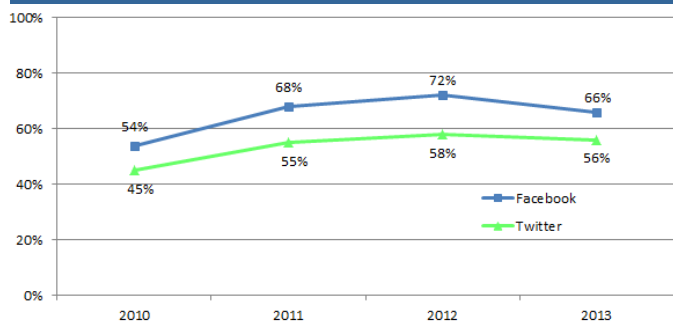
New forms of social media were adopted in the shopping center industry during 2013. For example, Instagram was adopted by 292 shopping centers, which resulted in 164,375 shoppers who shared pictures and engaged with their favorite shopping centers. Pinterest, which involves sharing information and pictures in categorized interests, was added by 155 shopping centers. Additionally, 232 shopping centers have implemented a form of Mobile Club to reach their

* President and CEO, Alexander Babbage

¹ Alan McKeon, Charlotte Sykes and Kyle Kirchof, *Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013* (Alexander Babbage, 2014).

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Chart 3-1
Centers Using Facebook and Twitter , 2010-2013



Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

shoppers using text messages, while only 109 shopping centers have featured a Google+ account.

Value centers (consisting of centers that include outlet tenants as well as superstores, catalog retailers, retail clearing houses, off-price and discount tenants and food purveyors) were the early adopters for both Facebook and Twitter between 2010 and 2011, while regionals and super-regionals were slower to come on board. As of year-end 2013, super-regional centers had eclipsed all other center types in their use of both Facebook and Twitter. Without the growth among super-regionals, the overall industry use of Facebook and Twitter would be below 2011 levels.

Social media is the preferred source of information for Generation Z and Millennials.² Leveraging an effective social media strategy will be critical to shopping centers as they continue to engage and build profitable and meaningful relationships with their shoppers.

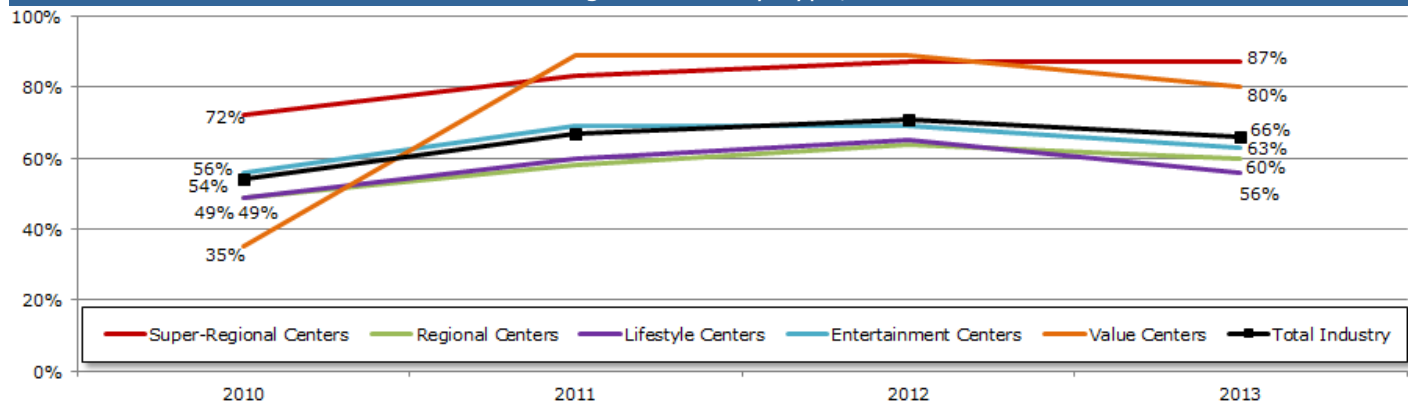
The shopping center industry ramped up its use of both Facebook and Twitter between 2010 and 2012, but penetration plateaued in 2012 and—mostly driven by a decreased use among value centers—the use of both mediums saw an industry-wide decline in 2013, as shown in Chart 3-2.³ Nevertheless, more than two-thirds of all shopping centers rely on Facebook as their primary social media tool.

As evidenced by the growth in the number of likes across all shopping center types, and as shown in Table 3-1, marketing teams put a significant focus on shopper engagement in 2013. The increase in likes among super-regional centers is particularly noteworthy given the growing number of centers that added Facebook in 2013.

As the ranking of centers with the most Facebook likes in Table 3-2 indicates, at year-end 2013, Plaza Las Americas continued to hold the top spot with more than 489,000 likes—and growing—but three centers moved onto the Top 20 for the first time. Sawgrass Mills saw a surge in likes from 2012 to 2013, and as a result, moved onto the Top 20 List with more than 107,000 likes. Moreover, Pike Place Market (205,923) and Hollywood & Highland Center (82,254) were newcomers to the Top 20 ranking.

Chart 3-3 shows that, except for super-regional centers, the number of centers using Twitter remained at or below 2012 levels, signaling a potential pause point to gauge—and perhaps refine—the role of this communications tool relative to other emerging mediums (e.g., Instagram and Pinterest). At the same time, the average number of Twitter followers increased for every center type from 2012 to 2013, as seen in Table 3-3.

Chart 3-2
Centers Using Facebook by Type, 2010-2013



Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

² Telefonica Financial Times, *Telefonica Global Millennial Survey*, retrieved November 4, 2014, p. 8.

³ McKeon, Sykes and Kirchhof, *Ibid.*

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Table 3-1

Average Number of Facebook Page Likes
Per Center, 2011-2013

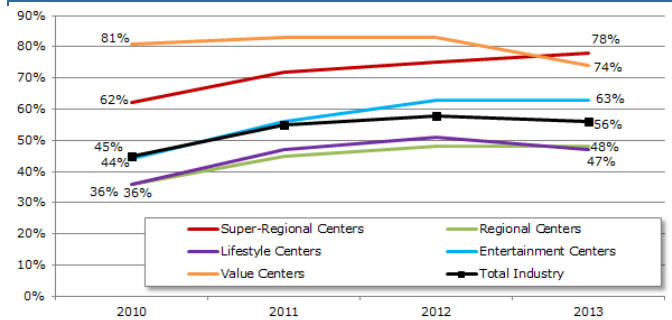
Center Type	2011	2012	2013	Percent Change 2012 to 2013
Super-Regional Centers	7,412	15,062	22,050	46%
Regional Centers	2,480	5,560	7,268	31%
Lifestyle Centers	4,566	7,674	11,232	46%
Entertainment Centers	18,698	43,049	71,839	67%
Value Centers	6,145	7,836	16,533	111%
Total Industry	4,895	10,329	13,820	34%

Note: Tanger Outlets and Premium Outlets are excluded from value center count because all branded centers share the same social media platforms, creating outliers.

Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

Chart 3-3

Centers Using Twitter, by Type, 2010-2013



Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

Table 3-2

Top 20 Centers by Number of Facebook "Likes"

Rank 2013	Rank 2012	Center Name	City/State	Management Company	Center Type	Gross Leasable Area (Square Feet)	Facebook Likes 2012	Facebook Likes 2013	Percent Change 2012 to 2013
1	1	Plaza Las Americas	San Juan, Puerto Rico	Plaza Las Americas, Inc.	SR	2,174,000	432,874	489,283	13%
2	2	Mall of America	Bloomfield (Minneapolis), Minn.	Triple Five Corp.	SR	4,200,000	421,151	456,531	8%
3	3	Universal CityWalk	North Hollywood, Calif.	Universal CityWalk	EC	400,000	160,983	261,776	63%
4	N/A	Pike Place Market	Seattle, Wash.	Pike Place Market PDA	LC	1,000,000	N/A	205,923	N/A
5	4	The Cosmopolitan	Las Vegas, Nev.	3700 Associates, LLC	LC	300,000	124,810	196,191	57%
6	5	Westfield Valley Fair	Santa Clara, Calif.	Westfield LLC	SR	1,477,679	102,728	128,393	25%
7	17	Florida Mall	Orlando, Fla.	Simon Property Group, Inc.	SR	1,769,207	55,603	121,515	119%
8	16	Seminole Paradise	Hollywood, Fla.	Seminole Properties Retail	EC	350,000	55,708	120,201	116%
9	6	King of Prussia Mall	King of Prussia (Philadelphia), Pa.	Simon Property Group, Inc.	SR	2,690,922	85,653	113,426	32%
10	7	The Houston Galleria	Houston, Texas	Simon Property Group, Inc.	SR	2,221,000	85,411	111,152	30%
11	18	Bal Harbour Shops	Miami Beach, Fla.	Bal Harbour Shops	RC	520,000	55,372	109,521	98%
12	8	Westfield Garden State Plaza	Paramus, N.J.	Westfield LLC	SR	2,178,402	80,943	108,347	34%
13	32	Sawgrass Mills	Sunrise, Fla.	Simon Property Group, Inc.	SR	2,153,000	40,522	107,134	164%
14	9	Downtown Disney	Lake Buena Vista, Fla.	Walt Disney Parks & Resorts	EC	300,000	74,394	102,187	37%
15	12	Memorial City Mall	Houston, Texas	Memorial City Mall, L.P.	SR	1,700,000	65,121	92,189	42%
16	10	Ontario Mills	Ontario, Canada	Simon Property Group, Inc.	SR	1,365,440	67,972	90,610	33%
17	13	The Grove	Los Angeles, Calif.	Caruso Affiliated	LC	575,000	62,183	89,493	44%
18	11	Westfield Culver City Mall	Culver City, Calif.	Westfield LLC	SR	1,059,699	67,534	85,510	27%
19	21	Westfield Topanga	Canoga Park (Los Angeles), Calif.	Westfield LLC	SR	1,637,088	50,642	84,366	67%
20	23	Hollywood & Highland Center	Los Angeles, Calif.	CIM/H&H Retail, L.P.	EC	640,000	44,679	82,254	84%

Note: Under "Center Type," SR="super-regional," EC="entertainment center," LC="lifestyle center," RC="regional center."

Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

The lifestyle center category, which is comprised of centers that are more likely to implement a regular on-site events schedule, led the way in 2013 for growth in the number of Twitter followers, accounting for half of the centers on the Top 20 list, as seen in Table 3-4. The top-ranked center, The Cosmopolitan, saw extremely strong growth of 120%, boosting its number of followers to more than 200,000. But the other 19 centers among the Top 20 followers rank far behind The Cosmopolitan, with 18 having fewer than 30,000 followers each. Only two regional centers (Americana at Brand and Bal Harbour Shops) made the Top 20 list in 2013.

As seen in Table 3-4, four centers, two of them in Kansas City, entered the Top 20 for the first time in 2013.

Table 3-3

Average Number of Twitter Followers

Center Type	2011	2012	2013	Percent Change 2012 to 2013
Super-Regional Centers	558	827	1,189	44%
Regional Centers	290	487	575	18%
Lifestyle Centers	1,313	2,380	3,361	41%
Entertainment Centers	3,075	4,934	6,439	31%
Value Centers	812	890	1,175	32%
Total Industry	644	1,124	1,502	34%

Note: Tanger Outlets and Premium Outlets are excluded from value center count because all branded centers share the same social media platforms, creating outliers.

Source: Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013

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Table 3-4
Top 20 Centers by Number of Twitter Followers

Rank 2013	Rank 2012	Center Name	City/State	Management Company (as of year-end 2013)	Center Type	Gross Leasable Area (Square Feet)*	Twitter Followers 2012	Twitter Followers 2013	Percent Change 2012 to 2013
1	1	The Cosmopolitan	Las Vegas, Nev.	3700 Associates, LLC	LC	300,000	108,423	239,044	120%
2	2	The Grove	Los Angeles, Calif.	Caruso Affiliated	LC	575,000	49,415	75,307	52%
3	4	Mall of America	Bloomfield (Minneapolis), Minn.	Triple Five Corp.	SR	4,200,000	20,310	29,211	44%
4	5	Universal CityWalk	North Hollywood, Calif.	Universal CityWalk	EC	400,000	17,999	25,910	44%
5	N/A	Pike Place Market	Seattle, Wash.	Pike Place Market PDA	LC	1,000,000	N/A	24,938	N/A
6	6	Atlantic Station Town Center	Atlanta, Ga.	North American Properties	LC	586,296	13,729	22,513	64%
7	8	Ala Moana Center	Honolulu, Hawaii	General Growth Properties, Inc.	SR	2,100,000	11,141	14,007	26%
8	9	The Americana at Brand	Glendale, Calif.	Caruso Affiliated	RC	600,000	9,485	12,410	31%
9	10	Patriot Place	Foxborough (Boston), Mass.	Strategic Retail Advisors	LC	1,300,000	9,194	12,198	33%
10	15	NorthPark Center	Dallas, Texas	NorthPark Management Co.	SR	2,000,000	6,852	11,240	64%
11	7	Bal Harbour Shops	Miami Beach, Fla.	Bal Harbour Shops	RC	520,000	12,430	11,167	-10%
12	32	Country Club Plaza	Kansas City, Mo.	Highwoods Properties	LC	900,000	4,480	10,275	129%
13	11	Opry Mills	Nashville, Tenn.	Simon Property Group, Inc.	SR	1,166,379	8,290	9,719	17%
14	16	The Houston Galleria	Houston, Texas	Simon Property Group, Inc.	SR	2,221,000	6,591	9,686	47%
15	24	Kansas City Power & Light District	Kansas City, Mo.	The Cordish Co.	LC	500,000	4,849	9,572	97%
16	12	Crystals at CityCenter	Las Vegas, Nev.	MGM Resorts International	LC	500,000	8,278	9,450	14%
17	13	Gilbert Town Square	Gilbert, Ariz.	Triple Five AZ Development Corp.	EC	500,000	8,187	9,213	13%
18	35	Town Square Las Vegas	Las Vegas, Nev.	Forest City Enterprises	LC	1,648,530	4,383	8,174	86%
19	14	Dana Park Village Square	Mesa, Ariz.	Triple Five AZ Development Corp.	LC	400,000	7,757	8,167	5%
20	18	Pearlridge Center	Aiea, Hawaii	BRE/Pearlridge LLC	SR	1,300,000	6,034	8,100	34%

* Includes retail and other property types.

Note: Under "Center Type," SR="super-regional," EC="entertainment center," LC="lifestyle center," RC="regional center."

Source: *Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013*

Pike Place Market in Seattle ranked fifth for the number of Twitter followers with nearly 25,000, while Country Club Plaza and Kansas City Power & Light ranked 12th and 15th, respectively, with approximately 10,000 followers each. Town Square Las Vegas (8,174 followers) also made the Top 20, moving from 35th in 2012 to 18th in 2013.

The number of Facebook likes and Twitter followers alone does not determine a center's social media influence; rather, it is the number of likes and followers (as well as other forms of social engagement) in combination with activity within the mediums that determines a center's overall impact or their "social footprint." As evidenced in Table 3-5, six of the Top 20 centers as ranked by their Klout⁴ score are not on either the Top 20 for Facebook likes or Twitter followers. However, the social media activity these centers generate have the effect of boosting their Klout score above 60, ranking them among the most socially powerful centers in the industry. These seven over-achieving centers are Fashion Island, Aventura Mall, Forum Shops at Caesars, Frisco Square, The Shops at Park Lane, South Bay Galleria and CityCentre.

The shopping center industry began to embrace Instagram and Pinterest in 2012, but centers have been much slower to adopt these communications channels as compared to Facebook and Twitter. At year-end 2013,

16% of all centers had accounts on Instagram and just 9% on Pinterest. Perhaps not so coincidentally, the top three centers for Pinterest followers (The Cosmopolitan, The Grove and Pike Place Market), also rank first, third and fifth respectively for the number of Twitter followers.

The integration of Mobile Clubs has been adopted by 13% of all shopping centers to communicate with their shoppers directly via text messages. The driving forces behind this adoption rate are super-regional and regional shopping centers, which account for 85% of the adoption rate.

Where Do We Go From Here?

The plateauing of social media use by shopping centers in 2013 may signal a change in the direction for the industry's use of social media going forward; however, the increase in total likes and followers suggests that the industry still sees considerable value in leveraging social media tools to connect with shoppers to build a sense of community and strengthen overall engagement.

A recent change in social media protocol is the evolution from organic exposure to a paid advertising model. Several outlets, including Facebook, have made this change, which means reaching potential new customers is more involved—and costly—than simply posting a few statuses or tweets. While more costly, this

⁴ Klout is a website and mobile app that uses social media analytics to rank its users according to online social influence via the "Klout Score," which is a numerical value between 1 and 100.

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Table 3-5
Top 20 Centers by Overall Klout Scores

Rank 2013	Center Name	City/State	Management Company	Center Type	Gross Leasable Area (Square Feet)*	Klout Score
1	Mall of America	Bloomfield (Minneapolis), Minn.	Triple Five Corp.	SR	4,200,000	87
2	Town Center at Atlantic Station	Atlanta, Ga.	North American Properties	LC	586,296	84
3	Pike Place Market	Seattle, Wash.	Pike Place Market PDA	LC	1,000,000	81
4	The Grove	Los Angeles, Calif.	Caruso Affiliated	LC	575,000	80
5	Seminole Paradise	Hollywood, Fla.	Seminole Properties Retail	EC	350,000	79
6	The Americana at Brand	Glendale, Calif.	Caruso Affiliated	R	600,000	78
7	Bal Harbour Shops	Miami Beach, Fla.	Bal Harbour Shops	R	520,000	77
8	The Cosmopolitan	Las Vegas, Nev.	3700 Associates, LLC	LC	300,000	72
9	Pearlridge Center	Aiea, Hawaii	BRE/Pearlridge LLC	SR	1,300,000	71
10	Ala Moana Center	Honolulu, Hawaii	General Growth Properties, Inc.	SR	2,100,000	70
11	Fashion Island	Newport Beach, Calif.	The Irvine Company	SR	1,200,000	69
12	Aventura Mall	Miama, Fla.	Turnberry Associates	SR	2,099,768	68
13	Universal CityWalk	North Hollywood, Calif.	Universal CityWalk	EC	400,000	67
14	Opry Mills	Nashville, Tenn.	Simon Property Group, Inc.	SR	1,166,379	67
15	Forum Shops at Caesars	Las Vegas, Nev.	Simon Property Group, Inc.	LC	675,000	65
16	Frisco Square/MarketPlace at Frisco Square	Frisco, Texas	Frisco Square Development	LC	500,000	65
17	The Shops at Park Lane	Dallas, Texas	Northwood Investors	LC	600,000	64
18	South Bay Galleria	Redondo Beach, Calif.	Forest City Commercial Management	R	959,247	64
19	CityCentre	Houston, Texas	Midway	LC	649,827	64
20	Mosaic District	Fairfax, Va.	EDENS	LC	1,900,000	64

* Includes retail and other property types.

Note: Under "Center Type," SR="super-regional," EC="entertainment center," LC="lifestyle center," RC="regional center."

Source: *Alexander Babbage Shopping Center Industry Social Media Benchmark End of Year Report 2013*

transition nevertheless provides shopping centers with the opportunity to target advertising directly to the specific individuals who are most interested in the deals and merchandise shopping centers have to offer.

While advertising via social media has become increasingly more important and prevalent, the use of social media to create a sense of community continues to play a key role for shopping centers. By developing distinct engagement and interaction—and social listening—the shopping center industry can continue to learn from their shoppers to mutually benefit both the centers and the shoppers.

In addition, shopping centers must seek ways to interact with shoppers that are not directly linked to advertising and purchasing. They must provide their socially connected community the opportunity to view the mall as a destination and an experience for themselves and their family. Changing the mindset of the consumer from thinking of the mall as principally as a place to *shop*—to thinking of it more generally as a place to *be*—is

essential if the industry is to solidify the patronage of young, socially engaged consumers.

Many shopping centers have leveraged social media to promote in-center events and used social media as a means of tracking the shopper experience. This level of interaction between shopping centers and shoppers using social media is becoming increasingly more sophisticated, but has not reached the level of full integration seen in other industries. One inspiring example of the integration of social media to drive awareness and engagement is Vail Resorts' EpicMix™ app.

Changing the Status Quo

Much as the shopping center industry has done since 2008, the ski resort industry has strategized on ways to reinvigorate their industry in order to build stronger current and future relationships with skiers. As an example, Vail Resorts decided on a radical approach that integrates technology, social media and the mountain to enhance the way their guests experienced the mountain

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and shared their experiences through social media channels, thus creating loyal brand ambassadors.

In the 2010-2011 ski season, Vail introduced EpicMix, a social media platform for their season pass holders that would track their vertical feet, award digital pins for accomplishments, race against Olympic champion Lindsey Vonn's time in a slalom course and share complimentary photos on the mountains that Vail owned and operated. (See Figure 3-1.) The idea behind the app was to take

their on-mountain experience and create a shareable, memorable and eventful experience. By integrating the app directly with Facebook and Twitter, Vail made the day at the mountain easy to share with friends and family.

The question then became whether this new approach actually would be used by Vail's current audience. The response by the skiing community proved to be emphatic. Nearly 100,000 guests activated an EpicMix account in its first season (a nearly 15% adoption rate among eligible users) and some 40,000 downloaded the EpicMix app to their mobile phone. While Vail Resorts does not provide more recent metrics directly tied to EpicMix, their continued investment in the initiative indicates that guests are seeking experiences that allow them to amplify their real-time experience—and to share it seamlessly with friends and family.

Vail Resorts was presented with a problem that many shopping centers are facing today. Rather than returning to "tried-and-true" tactics, with engagement and social media, they introduced something entirely new that revolutionized the way many skiers and snowboarders engaged with ski resorts and shared their experiences.

Finding this experiential element and applying it to the shopping center industry could be the next step in transitioning from the traditional audience of Baby Boomers to Millennials and Generation Y.

Figure 3-1

epicMIX Mobile Application



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Retail Real Estate Evaluates 3D Printing

Elevating the Customer Experience and Manufacturing Capabilities to Meet Ever-Changing Demand

NICHOLAS DESPOTIDIS*

Abstract: This paper looks at 3D printing and its potential effects on retail real estate. After briefly discussing the 3D printing process and predictions for its future, the report provides examples of integration of this technology into the consumer experience, its market capitalization, the rise in consumer power generated by the process, and its real estate implications. It concludes by analyzing the possible future implications of 3D printing for shopping center tenants, consumers and employees.

Introduction

How 3D Printing Works

3D printing is a manufacturing technique that prints products "layer by layer," a term called Additive Manufacturing (AM). This technology allows printers to produce items in one-sixth the amount of time it would normally take manufacturers. Two main methods, selective sintering and stereolithography, are used to print products with lasers. The product contains a file (unlike ones consumers are familiar with), which encodes a design that maps out objects in three-dimensional space, using height, width and length measurement to calculate volume and other parameters. The best comparison of 3D printing is to a desktop printer, except that the 3D printer builds the object layer by layer instead of dot by dot. Malleable materials such as ceramics, plastics and metals are used rather than ink, with ultraviolet rays precisely etching the design and dimensions.

In sum, 3D printing creates an efficient process that operates without prolonged lag time between the idea and the production, in stark contrast with traditional assembly-line manufacturing.¹

A Futurist's Predictions

Thomas Frey, executive director of the non-profit futurist think tank DaVinci Institute, painted a picture of the infinite possibilities of 3D printing as a manufacturing process to a group of engineering students at the 2013

Medical Design & Manufacturing West Show. "Think of the printer that can first print the soup can, and then print the soup that goes inside it," he said. The growth potential of 3D printing technology is so great, he suggested, because it allows companies to manufacture a product, its shape, color, size, material, and ultimate utility, tailored to the customer's individual preference. According to Frey, the new technology not only transforms the *marketplace* (3D printers will print clothes following a body scan, as well as a soup can "and the soup that goes inside it") but also the *workplace* (workers will labor in more temporary, project-oriented environments).²

One industry that he sees being affected by this major change is retail. This transformation could occur in a number of ways. Convenience stores, for instance, can offer print-while-you-wait options for a host of products, such as clothing, shoes, jewelry, drugs, and food, and even use scan-and-fax options to send objects that are 3D printed for people at their destinations in other cities. At the same time, single pill-printing machines can threaten pharmacies, Frey believes.³

Or, to choose another common situation that will be transformed: Consumers will browse for a sweater design and print it in a desired size, color and fabric.

Examples such as these demonstrate why shopping center landlords and their retailers are beginning to weigh carefully the impact of such technology. Their experiences with e-commerce and mobile commerce will incline them

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¹ Alexandru Pirjan and Dana-Mihaela Petroşanu, "The Impact of 3D Printing Technology on the Society and Economy," *Journal of Information Systems & Operations Management*, Vol. 7 (Issue 2), December 2013, pp. 360-370.

² Charles Murray, "[Futurist: 3D Printing Will Pave the Way for a New Era of Manufacturing](#)," *Design News*, February 14, 2013, retrieved July 30, 2014.

³ Howard Riell, "[A Forward Look at Convenience Retailing](#)," *Convenience Store Decisions*, September 22, 2014, retrieved December 4, 2014.

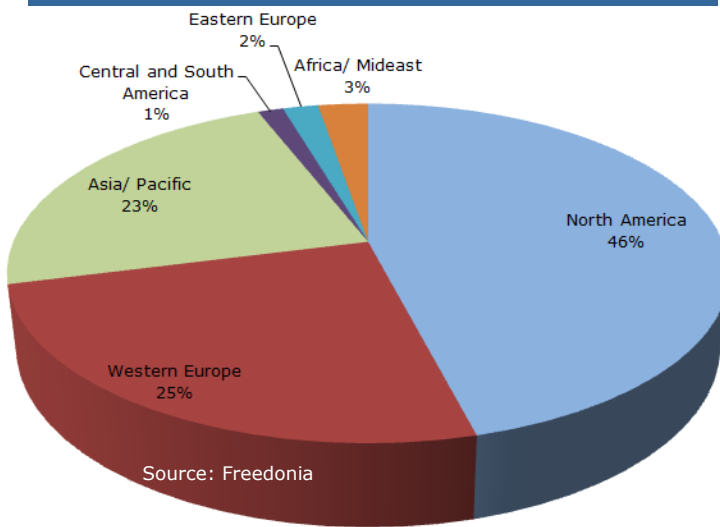
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strongly toward figuring out whether this will be a disruptive or sustaining technology.⁴ That history reinforces the need for extreme caution in predicting the exact dimensions of change. What *can* be said is what is apparent now: that the point of sale is not only featuring products, but even, in the form of consumers' explicitly stated wishes and designs, intellectual properties.

Later, this article will examine which retailers are experimenting with 3D printing, as well as possible real estate implications. But in the meantime, it makes sense to investigate this phenomenon at a macro level, so that one better understands why 3D printing is giving so many in the industry so much to ponder.

Chart 4-1

Global 3D Printing Technology Demand by Geographic Location



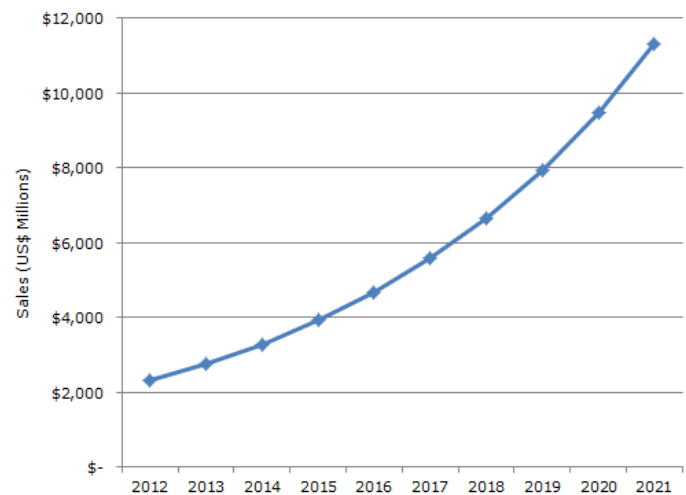
Explosive Growth Potential

The Players

Such 3D printing companies as 3D Systems and Stratasys have experienced strong revenue growth while penetrating manufacturing markets. Stratasys' revenues were projected between \$660 and \$680 million in 2014;⁵ similarly, revenues for 3D Systems are projected to range from \$695 million to \$735 million for the year.⁶ Both

Chart 4-2

Global 3D Printing Technology Market Growth, 2012-2021



Source: Wohlers Associates

companies have grown within the last decade through large acquisitions and constant innovation. Competition is spurring increasingly efficient and sustainable technology, with the 3D market establishing a global and household presence.

Global 3D Printing Market

As consumers demand more products in a shorter manufacturing period, in every industry and market, 3D printing is responding in kind. Indeed, 3D printing, by enabling greater consumer personalization, even within their own home, could upend the consumer supply chain.⁷

In 2012, North America held 46% of the global market share in 3D printing relative to sales, followed by Western Europe (25%), Asia/Pacific (23%), Africa and the Mideast (3%).⁸ (See Chart 4-1.) Larger manufacturing companies around the globe are adapting to the new 3D technology, leading small businesses, in turn, to follow their lead. Freedonia analyst Pauline Tung expects "greater adoption of additive manufacturing technologies as 3D printing speeds and material quality improves."⁹ (See Chart 4-2.)

⁴ "Sustaining" technology evolves existing markets rather than displacing them, while "disruptive" innovations create new markets and value networks by rendering current technology passe. The terms were coined and explained in Clayton M. Christensen, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail* (Cambridge, Mass.: Harvard Business Review Press, 1997).

⁵ "Stratasys Reports Record Fourth Quarter and Fiscal Year 2013 Financial Results," Stratasys press release, March 3, 2014, retrieved June 24, 2014.

⁶ Damon Gregoire, "Outlook," in *3D Systems Presentation for Investor and Analyst Day*, June 10, 2014, retrieved September 25, 2014.

⁷ Deborah Weinswig, "How 3D Printing Will Change Retailing," *Retailing Today*, March 10, 2014, retrieved December 2, 2014.

⁸ John Graber, "3D Printing Market to Reach \$5 Billion by 2017," *3D Printer World*, retrieved September 25, 2014.

⁹ *Ibid.*

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AM's popularity is spreading rapidly, with a 34.9% compound annual growth rate in 2013, breaking \$3 billion in sales revenues, according to the *Wohlers Report 2014*, an annual study covering all aspects of 3D printing.¹⁰ 3D printing is not just innovative and effective technology but an environmentally efficient method of manufacturing that holds more long-term value to its company and stakeholders. It is a self-sustaining process with little to no waste byproducts, facilitating growth in both the bottom and double bottom lines.

As seen in Chart 4-2, the global AM industry is predicted to reach approximately \$11 billion by 2021.¹¹ Credit Suisse, Goldman Sachs and Wohlers Associates analysts agree that demand for 3D printers is growing rapidly. A team of Credit Suisse analysts led by Julian Mitchell is particularly optimistic, even believing that estimates by industry consultants of annual growth of approximately 20% in 3D printers might understate the reality. They conclude that four markets—aerospace, automotive, health care, and consumer—alone “represent sufficient opportunity to sustain 20-30% annual revenue growth.”¹²

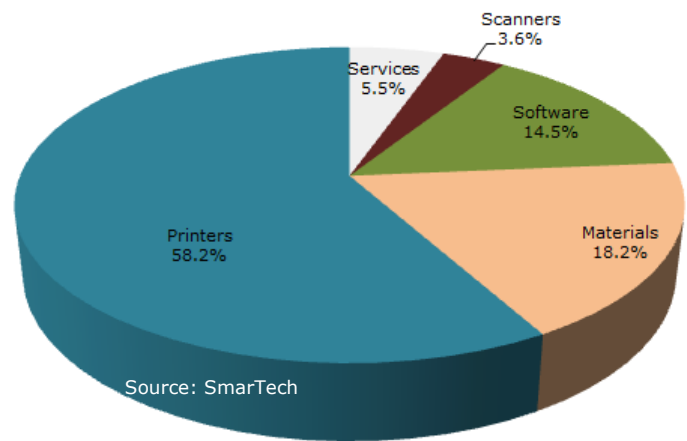
Global markets, therefore, are likely to be affected, at least in some way, by 3D scanners, parts and printers, with the potential not only for healthcare and aerospace, but also for the retail and wholesale, software, telecommunications, television, automotive, and food and beverage industries.

The sheer diversity of this change has led to massive, even breathless, media coverage.¹³ Only the passage of time will reveal how many of these forecasts evince acute foresight rather than blue-sky thinking.

Personal 3D Printers

Nearly two-thirds (\$115 million in 2013 sales revenues, or 58%) of the personal 3D printing market is composed of printers, followed by materials, software, scanners, and services. (See Chart 4-3.) Analysts with SmarTech Markets Publishing predict that this market will

Chart 4-3
Personal 3D Printer Market by Segment



top \$1 billion by 2019. As the gap between large and small 3D printing companies closes through the next 10 years, affordable 3D printers should be increasingly within the range of consumers' purchasing power. Additionally, technology is becoming more intuitive for consumers to use, with apps enhancing interaction with CAD/CAM designer software.¹⁴

The number of 3D printers priced below \$5,000 that were sold reached 72,503 in 2013, a 104% increase from the prior year.¹⁵ (See Chart 4-4.) SmarTech Senior Business Analyst Ian Forsyth likened the 3D printers of today to the microwave ovens of yesterday, believing it is only a matter of time before they are seen as standard household appliances: “Experts who use this analogy believe that 3DP creation will become more and more intuitive, to the point where you only need to click a few buttons to produce a printed object on demand.”¹⁶

A Force Transforming Retail

Like omni-channel shopping, consumer-powered demand, and the sharing economy, 3D printing is part of

¹⁰ Wohler Associates, “[Wohlers Report 2014 Uncovers Annual Growth of 34.9% for 3D Printing and Additive Manufacturing Industry](#)” (May 1, 2014 press release), retrieved September 25, 2014.

¹¹ Wohler Associates, “[Wohlers Report 2013 Reveals Continued Growth in 3D Printing and Additive Manufacturing](#)” (May 23, 2013 press release), retrieved July 21, 2014.

¹² Rob Wile, “[Credit Suisse: 3D Printing Is Going To Be Way Bigger Than What The 3D Printing Companies Are Saying](#),” *Business Insider*, September 17, 2013, retrieved July 31, 2014.

¹³ Some sample headlines from a Google search: “How Will 3D Printing Benefit Education?”, “How Will 3D Printing Affect Manufacturing?”, “How Will 3D Printing Affect the Economy?” and, most hopeful of all, “How Will 3D Printing Affect the World?”

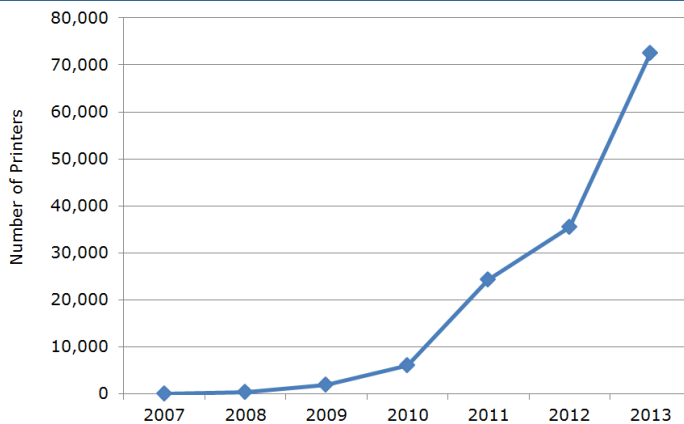
¹⁴ Todd Halterman, “Report Says Personal 3D Printing Market to Top \$1 Billion by 2019,” *3D Printer World*, June 11, 2014, retrieved January 15, 2014.

¹⁵ “[Personal 3-D Printing Sales in 3-D](#)” (infographic), *Wall Street Journal*, retrieved July 21, 2014.

¹⁶ Ian Forsyth quoted in Halterman.

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Chart 4-4
Personal 3D Printer Sales (Under \$5,000)



Source: Wohlers Associates

a larger movement enabling greater consumer flexibility in what and how they purchase.¹⁷

3D printing allows people to use technology without having to invest money in the machine or time in designing the product. Such services are provided by Shapeways, an online 3D product retailer whose 3D printing apps have helped generate more than 20,000 product uploads monthly.¹⁸ A 22,000-sq.-ft. open market for designers to display and sell crafted products and inventions has been a success at Industry City, a complex of historic industrial buildings in Sunset Park, Brooklyn, N.Y. that has become a destination for manufacturers, creative startups, technology firms, artists and others.¹⁹

3D Printing Showcased by Major Retailers

Wal-Mart

Because of its sheer size, the greatest potential development in this area might involve the world's largest retailer. Wal-Mart Chief Executive Officer Doug McMillon created significant buzz at the May 2014 Code Conference

in California when he admitted the discount department store's interest in the technology for replacing parts. In fact, the company had already, since November 2013, been testing a 3D imaging and printing service in-store at the York location of its United Kingdom affiliate, Asda. By August 2014, that U.K. test had proved popular enough that the retailer was considering rolling it out to other stores.²⁰

If Wal-Mart decides to go all in with 3D printing, it would immediately be able to wield several advantages, including its store network, its purchasing leverage with suppliers, and existing services (e.g., photo printing and pharmacy services).²¹

Nike

For the 2014 Super Bowl, Nike released the world's first game-day football cleats "inspired and developed from 3-D printing" and worn by seven of the 10 fastest athletes in the National Football League.²² A process that customarily takes three years took a matter of months to go from idea to production. Shopping center tenants such as athletic stores will be able to customize merchandise based on new trends and the customer's preferences on demand or at close manufacturing sites.

Staples

Office supply chain stores already have 3D printers, parts, and software for sale at select locations and online. Chains offer a wide range of models, priced in Q4 2014 from the Solidoodle (approximately \$600), which is compatible with Mac and Windows, up to the Cube X Trio (approximately \$4,000), which is for commercial use.

Stores are also providing 3D printing services in California Staples 3D Systems.²³ Technicians and scanners were placed to assist consumers in designing their own cellphone cases and miniature caricature models. Damien Leigh, senior vice president of business services at Staples, has said that 3D printing "offers enormous

¹⁷ In *omni-channel shopping*, products are bought from retailers using a number of different channels (e.g., brick and mortar, TV shopping, mobile applications, online). *Consumer-powered demand* involves greater empowerment from start to finish of the type and manner of purchases. In the *sharing economy*, people rent items (e.g., music, movies, printers, and clothing) from businesses or others as a cost-effective way of consumption.

¹⁸ Pete Weijmarshausen, The Shapeways Blog, "[Inspiring the Next Generation of Creators: Announcing Our Collaboration with Google on Made with Code to Inspire Millions of Girls to Code & Create](#)," June 19, 2014, retrieved September 26, 2014.

¹⁹ "[Amenities: Start Big at Industry City](#)," retrieved September 26, 2014, and "[Industry City's 'Factory Floor' Extends the Frontier of Brooklyn Maker Community to Sunset Park, Pop-Up Market Opens October 19](#)," *Core 77* (blog), October 18, 2013, retrieved January 16, 2015.

²⁰ Erika Morphy, "[Can 3-D Save Retail? Let's Check In With the Lawyers](#)," *Forbes*, June 6, 2014, retrieved December 4, 2014; John Hauer, "[Walmart Could Own the Retail 3D-Printing Business by 2020](#)," *Quartz*, November 10, 2013, retrieved December 4, 2014; Anne D'Innocenzio, "[Walmart Finds Success Can Be a Matter of Adapting](#)," *Philadelphia Daily News*, August 15, 2014, retrieved December 11, 2014.

²¹ Rakesh Sharma, "[3 Companies That Could Become The Kinko's of 3D Printing](#)," *www.benzinga.com*, September 30, 2014, retrieved December 11, 2014.

²² Steven Heller, "[How 3D Printing Is Changing the World of Manufacturing](#)," *Motley Fool*, February 14, 2014, retrieved June 24, 2014.

²³ "[Solidoodle Press: A Starter 3D Printer at an Affordable Price](#)," *CNET*, August 5, 2014, retrieved December 2, 2014. 3D Systems is the largest 3D printer manufacturer that also offers solutions, parts, and materials for manufacturing needs.

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potential for small businesses, and by using Staples, they can print technology without having to invest in it.”²⁴ Revenue sales in core office supplies accounted for 27.5% of Staples sales for 2013. In addition, the “computers and mobility” and “services” areas accounted for 6.9% each for the same period. The latter two areas have growth potential because of 3D products and services.²⁵ Stores are shifting to “industrial space” where products can be bought and services can be used on the go while producing additional yields for the business.

UPS

The UPS Store Inc. has partnered with Minnesota-based Stratasys LTC, the second-largest 3D printer manufacturer, to provide 3D printing services to new and existing customers. Consumers can bring a file of a design to be printed on-site. (For instance, a medical-engineering student from the University of California Santa Cruz visited UPS’ Kearny Mesa, Calif. location in the summer of 2013 to fabricate robotic parts for a life-sized mechanical hand, at a cost of \$330.) For shopping center tenants, 3D printer services are a new way to increase foot traffic and create new revenue streams for an existing business.²⁶

Radio Shack

The electronics retailer, evidently seeing 3D printing as a traffic generator, announced in May 2014 that select locations would feature Printrbot Simple models for \$599. It even ran a promotion last summer that gave away \$50 gift certificates if customers could guess what the company was running off on its 3D printer.²⁷

3D Printing Store

Perhaps the most fascinating development connected to 3D printing is a store completely dedicated to this purpose. The 3D Printing Store, sensing an opportunity to widen the audience for the technology beyond its original

engineering users, saw brick-and-mortar locations as an excellent means of increasing public awareness. Starting in late 2012, it opened four stores in Colorado, then, in November 2014, announced that it would add its first location outside the state, in Houston, Texas.²⁸

Implications for Retail Real Estate

With entrepreneurs and small businesses forming a significant part of their customer base, office-supply superstores seem a tenant type likely to benefit from 3D printing’s promise of less expensive, more user-friendly technology, according to longtime retail observer Deborah Weinswig.²⁹ But the types of products that can be produced via 3D technology are diverse—running shoes, dresses, hearing aids, vacuum accessories, shower heads, light switch plates, phone cases, fishing gear, housewares, and more—affecting a correspondingly broad swath of store types.³⁰

Currently, clothing, clothing accessory, sporting goods, and hobby stores dedicate much of their floor space to “clutter” inventory.³¹ Stores with 3D printing will hold featured baseline products and material on inventory. The additional space can be used for research and prototyping. Consequently, revenue per product increases and inventory is better managed, with “the middle man” eliminated. With leftover final products minimized, fewer items will need to be discounted or even wasted.³²

The more direct, immediate contact with customers reduces the vast bets that retailers may make on trends that can change in a flash. Teen apparel, for instance—a category that an industry executive has characterized as being recently in “a period of disruption and turmoil”³³—need not be quite so much of a boom-or-busy proposition with use of 3D printing. It need not matter so much whether a teen wants more or less what most of her peers wear or whether she opts for something more

²⁴ “[ADDING and REPLACING Staples Makes More 3D Printing Happen With Launch of In-store Experience in New York and Los Angeles](#),” *Business Wire* (April 14, 2014 press release), retrieved September 11, 2014.

²⁵ Staples, [2013 Annual Report](#), p. 92, retrieved August 29, 2014.

²⁶ Brad Graves, “The UPS Store Begins to Shape Plan to Profit From 3-D Printing,” *San Diego Business Journal* (Vol. 34, Issue 33), August 19, 2013, pp. 4, 43; Signe Brewster, “[Makin’ Copies: UPS Testing In-store 3D Printing in San Diego](#),” *Gigaom* (blog), July 13, 2013, retrieved September 11, 2014.

²⁷ Randall Desmond, “RadioShack to Begin Carrying PrintrBot Simple 3D Printers in Stores,” <http://3dprint.com>, May 29, 2014; Michael Molitch-Hou, “[Guess What Radio Shack is 3D Printing for a Chance to Win a \\$50 Gift Card](#),” <http://3dprintingindustry.com>, August 13, 2014, both retrieved December 11, 2014.

²⁸ “Our Team” and Justin Finesilver, “Announcement: The 3D Printing Store is Coming to Houston, Texas” (press release November 3, 2014), both retrieved from The3DPrintingStore.com, December 11, 2014.

²⁹ Deborah Weinswig, “[How 3D Printing Will Change Retailing](#),” *Retailing Today*, March 10, 2014, retrieved December 2, 2014.

³⁰ Hauer; Rakesh Sharma, “[The 3D Printing Revolution You Have Not Heard About](#),” *Forbes*, July 8, 2013, retrieved January 8, 2015.

³¹ Clutter inventory consists of products that sit on shelves for a longer period of time and have a lower turnover.

³² Maura Carland, “[How Will 3D Printing Impact Commercial Real Estate?](#),” www.welshco.com, retrieved January 8, 2015.

³³ Outgoing Abercrombie & Fitch Chief Executive Office Mike Jeffries quoted in Anne D’Innocenzo, “[Teen Retailers Get the Cold Shoulder for Holidays](#),” *The Record* (Bergen County, N.J.), December 14, 2014, retrieved December 15, 2014.

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geared to her own taste. The clothing store can react far more quickly whichever choice she makes.

Eliminating backroom square footage not only optimizes space, but promises to alter leasing structures. Less space means that retailers and their landlords may enjoy more site flexibility within a center. At the same time, the drive toward logistical efficiency may force a reexamination of how to deliver merchandise most quickly to tenants. (Will stores be used as pickup points, for instance?) Emerging electronic, mobile and social-media technologies have already brought to the surface a “borderless marketplace” that is restructuring how orders get processed and delivered to the end-user. Now, 3D printing becomes another factor that recalculates the familiar formulas by which the retail real estate industry operated for years.³⁴

3D printing makes it easy for start-up companies to create their own businesses and array of unique products, and so, very likely, these tenants will appear more in shopping centers. Start-ups in retail categories such as smaller boutique, jewelry accessories, home appliance, and clothing stores will be especially likely to create new demand for space. Larger manufacturers such as VF Corporation (creator of Lee), Wrangler, Vans, and Nautica have already moved into shopping centers, adding 400 new brick-and-mortar locations, enabling them to sell directly to consumers. “What’s been happening with retailers developing their own private-label lines and going for direct sourcing, as well as apparel manufacturers also expanding their own retail lines, is that there has been a blurring of distinctions between what is an apparel retailer and what is an apparel manufacturer,” explained Peter Kilduff, of the textile design and marketing department at the University of North Carolina, Greensboro.³⁵ 3D printing is closing the gap between manufacturers and retailers, as consumers witness the creation of proprietary products right in front of their eyes.

Workforce

The retail workforce is shifting from customer service to technician, analyst and logistic positions. In the *Bureau of Labor Statistics 2012-2022 Employment Projections*,

computer occupation jobs are expected to increase by 8.2% in clothing/ clothing accessory stores and 16.2% in general merchandise stores. Overall, market research analyst and marketing specialist jobs are predicted to grow 28.1% in retail trade stores.³⁶

In this high-tech shift, employees with a wider arsenal of skills—epitomized by the rapidly evolving software for 3D printers and methods of distribution—add to the long-term value of businesses. Companies are already looking to train millennials and next-generation youths in these high-tech skills. “Made with Code,” for instance, is an initiative that Google formed with Shapeways to train teenage girls in coding programs that enable them to design their own bracelets and merchandise.

What Is Holding Back 3D Printing?

Aerospace, automotive, medical, and retail can afford AM technology because of their relative size. Rolls Royce, GE and Ford have the capacity to manufacture a significant amount of products that outweigh the costs of the technology and printers.

In contrast, it may take some time for the cost of printers to fall sufficiently to persuade many ordinary consumers to pay for their own 3D printers. A technology acculturation factor may be at play as well: UPS decided to test an in-store design-to-printing package after polling convinced it that many customers interested in this new technology “did not have skills or software to produce 3D files.”³⁷ Indeed, more involved designs—requiring up to 30 minutes to print and machinery comparable in price to a laptop—will necessitate visits to tenants with such equipment, for those consumers with the inclination but not the apparatus to bring to life their own creations.³⁸

Product liability may also restrain robust development of 3D printing. Defective products often caught by companies with strong quality-assurance programs may become more of a problem when the time from creating something on a screen to printing it is drastically reduced. The range of targets could widen as well, including (but not limited to) the maker of a 3D printer, the supplier of materials, and the designer of software.³⁹

³⁴ “[Printing the Future](#),” *White Paper*, Colliers International, Fall 2014, retrieved December 11, 2014; Curtis D. Spencer and Steven Schellenberg, “Repositioning Retail and Warehouse Properties for Tomorrow: Consequences of the New Borderless Marketplace,” *Retail Property Insights*, Vol. 19, No. 1, 2012, pp. 15-19.

³⁵ Peter Kilduff quoted in George Anderson, “[Lines Blur Between Manufacturer and Retailer](#),” *RetailWire Discussion: Retail Wire*, March 13, 2006, retrieved September 8, 2014.

³⁶ U.S. Department of Labor, Bureau of Labor Statistics, “[Employment Projections-Table 1.9: 2012-22 Industry-Occupation Matrix Data, by Industry](#),” retrieved January 16, 2015.

³⁷ Daniel Remba quoted in Rakesh Sharma, “[Will UPS Succeed In Popularizing 3D Printing?](#)” *Forbes*, August 2, 2013, retrieved December 7, 2014.

³⁸ Rachel Hennessey, “[3D Printing Hits the Fashion World](#),” *Forbes*, August 7, 2013, retrieved December 11, 2014.

³⁹ Erika Morphy, “[Can 3-D Save Retail? Let's Check In With the Lawyers](#),” *Forbes*, June 6, 2014, retrieved December 4, 2014.

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Conclusion

The \$3 billion 3D printing industry will alter shopping centers in multiple ways.⁴⁰ The full implications of a consumer buying more individual, deeply personalized products are not yet immediately apparent.

But technology is already affecting brick-and-mortar locations, including the supply chain, employment skill set, and products and services offered. Large advancements in manufacturing methods are challenging shopping centers now rather than later to ask: When will the 3D printing go viral? On what scale does this affect

businesses, properties and tenants? Will there be printers in-store or off-site? How much will tenants then pay for rent? Is the infrastructure in place for this shift?

These are all challenges—but an immense opportunity also awaits. Retailers and their landlords will now have greater opportunities to counteract the so-called “showrooming” effect by getting people into their stores for truly customized products, while still retaining the environment that has always offered one of the industry’s greatest assets: the tactile experience.



Nicholas Despotidis is currently a second-year MBA student at the Johns Hopkins University Carey School of Business specializing in Finance. He has done work in areas including financial institutions and commercial real estate. Mr. Despotidis also owns and manages real estate property in Philadelphia, Penn. For his MBA courses, he has conducted in-depth research on stock valuation of 3D printing companies, specifically with 3D Systems, using asset-pricing, revenue enhancement, and equity valuation models. For further information, he can be contacted at ndespot1@jhu.edu.

⁴⁰ Wohler Associates, “[Wohlers Report 2013 Reveals Continued Growth in 3D Printing and Additive Manufacturing.](#)”

Above Grade: Educational Uses in Shopping Centers

The Three R's Join a Fourth: Retail

JEFF GREEN*

Abstract: Educational tenants represent one of the most intriguing new categories of shopping center tenants. These institutions find in shopping centers affordable and appealing spaces, while center landlords see them as offering predictable traffic flows and uses compatible with other adjacent center tenants. This article explains the history, trends and outlook for this phenomenon.

In the aftermath of a recession, and with the continuing and unavoidable turbulence that comes with an evolving marketplace, it is not surprising that the commercial real estate industry is going through some changes.

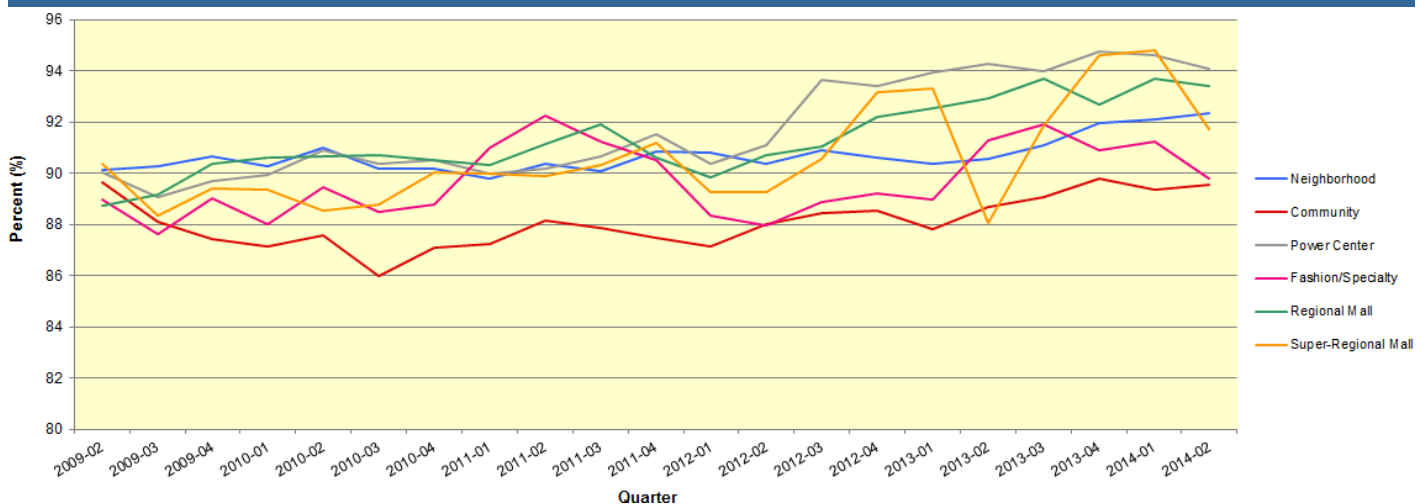
With change come challenges, but also opportunities. And one of the most significant opportunities for tenants and landlords alike is the potential for not just new tenants, but entirely new categories of tenants. One of the most intriguing of those categories is educational institutions.

By better understanding the industry and institutional dynamics behind this trend, and by taking a closer look at the opportunities that exist with emerging educational tenants as viable shopping center tenant options, it is possible to appreciate how and why they can be a good fit for empty center boxes, as well as what the outlook and implications will be for this trend in the coming years.

History

The biggest reason that shopping centers have opened up to a wider variety of tenant types and uses is simple availability. The marked increase of vacant mall and open-

Chart 5-1
U.S. Occupancy Rates by Shopping Center Type, Q2 2009-Q2 2014



Source: National Council of Real Estate Investment Fiduciaries

* Jeff Green Partners

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air center boxes in the past five to six years has made the possibility of new and different tenant types a reality.

Four primary forces are driving the increase of available boxes:

1. *Mergers and acquisitions* (the consolidation of prominent big-box retailers, such as Office Max and Office Depot);
2. *Bankruptcies and high-profile liquidations* (with major retailers such as Mervyn's, Circuit City and Gottschalks all going under in recent years);
3. *The consolidation of retailers with multiple outlets in the same centers* (for example there are many centers with multiple Dillard's and Macy's outlets, when really only one is needed), and;
4. *The continuing closure of stores for still-active brands* (retailers such as Sears, Best Buy and Barnes & Noble are still trimming their portfolios).

As the economy has recovered since 2009, occupancy rates have recovered across the board, but opportunity still exists for new types of tenants to emerge, as seen in Chart 5-1.

In that context, the emergence of less traditional tenant types such as educational institutions makes both logistical and financial sense. While this is a relatively new phenomenon—and the raw number of educational tenants occupying big-box locations is still fairly low—there are a number of reasons to think that this trend will continue to pick up steam. The need for more space for educational institutions, particularly community- and commuter-type colleges, trade schools, and the rapidly expanding field of alternative and continuing educational centers, make the availability of big-box spaces a promising solution for landlords and tenants alike.

Options and Opportunities

From a basic supply-and-demand standpoint, it is not hard to see why educational uses can be a good fit for available boxes. Educational institutions are intrigued by affordable and appealing spaces, and landlords are on the lookout for viable tenants to fill vacancies. Beyond the economics, there are a number of practical reasons why some educational institutions are starting to find shopping center locations an increasingly attractive option:

- *Costs.* The ability to expand in a way that keeps capital costs down is an appealing option for many schools and educational centers. In a volatile market where funding can be unpredictable, having the option to expand facilities, reach new markets, and provide new classes and learning opportunities

without the potentially prohibitive expense of ground-up construction is a welcome luxury .

- *Flexibility.* From the point of view of educational institutions, flexibility of leasing traditional big-box retail space is another benefit. Retail leasing allows the institution to keep its commitments as flexible as possible, limiting long-term debt and financial exposure and increasing the school's ability to take advantage of emerging opportunities going forward.
- *Diversity.* The broad selection of available vacancies allows schools and educational institutions to expand and evolve at their own pace and in their own way. Schools and programs with a significant online presence looking to move into the brick-and-mortar space can do so without worrying that these new locations will be a long-term liability. In other words, it expands, rather than limits, those institutions' ability to provide a wider variety of curriculums, educational services and instructional models.
- *Geography.* For educational institutions looking to establish a physical presence in a new market, or to increase their geographical footprint by establishing satellite campuses, new centers or alternative locations, retail locations are a convenient and affordable option.

From a landlord's standpoint, there is much to like about educational institutions beyond the rent check. Schools tend to have a predictable and consistent flow of foot traffic. While the traffic can ebb and flow considerably during the course of the day, the patterns tend to remain consistent from one day to the next. Both instructors and students are ideal candidates to patronize other retailers in the center.

Not only does the presence of an educational institution provide an additional demand component, but the peak activity of that component typically includes times when the shopping center is at its slowest: early morning and later in the evening. This is a nice boost for all retail tenants, particularly for restaurant and food-service operators.

Convenience centers have the great percentage of non-retail tenants; however, these tenants tend to be professional services (insurance, medical, financial) rather than educational. There are clearly opportunities within the other varieties of centers.

Where Is the Fit?

To date, educational tenants in commercial settings have most commonly been found in open-air centers and

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Table 5-1
A Selection of U.S. Shopping Centers
With Educational Institutions

Center Name	City/State	Educational Institution
Spring Rock Green Shopping Center	Richmond, Va.	Virginia College
Pierre Bossier Mall	Bossier City, La.	Virginia College
Aviation Square	North Charleston, S.C.	Virginia College
Duck Creek Plaza	Bettendorf, Iowa	Brown Mackie College—Quad Cities
Black Eagle Plaza	Boise, Idaho	Brown Mackie College—Boise
White Oaks Mall	Springfield, Ill.	ITT Tech
Eastgate Mall	Chattanooga, Tenn.	ITT Tech
Shoppes at University Center	Bradenton, Fla.	ITT Tech
Galleria Shopping Center	Myrtle Beach, S.C.	ITT Tech
Landmark Mall	Alexandria, Va.	Herndon-based K12
Green Trails Shopping Center	Lisle, Ill.	Empire Beauty School
Centreville Square	Centreville, Va.	Minnieland Academy
Parkwood Village	Hurst, Texas	Duval's School of Cosmetology
Overlake Center	Issaquah, Wash.	Goddard School
Columbus Square	Columbus, Ohio	National College
Tarrymore Square	Raleigh, N.C.	Miller-Motte Technical College
Bear Valley Shopping Center	Denver, Colo.	Westwood College - Denver South
College Plaza	Ebensburg, Penn.	Pennsylvania Highlands Community College
Rodeo Plaza	Clovis (Fresno), Calif.	Kaplan College
Altamonte City Centre	Altamonte Springs (Orlando), Fla.	Everglades University—Orlando Branch

Sources: Jeff Green; *ICSC Global Shopping Center Directory* (maintained by Real Capital Analytics)

other smaller retail developments, but the landscape is beginning to change. *Regional malls* offer the most promising opportunities for non-retail use in general, and educational use in particular. With bigger boxes, established “destination” status, and typically accessible real estate near a freeway or major artery, regional malls often have built-in assets that other locations do not. They also have the greatest amount of additional amenities for students, including restaurants, apparel stores, hair and beauty salons. While they may be the most appealing, regional mall opportunities do tend to be correspondingly more expensive.

The second category which is a good fit for educational institutions are *power centers*. Here, the trend seems strongest for educational institutions moving into available boxes. While the boxes tend to be somewhat smaller than those in larger regional centers, that is not always a bad thing—the smaller size of “medium-box” locations may actually be a good fit for many programs. While these centers tend to offer fewer complementary amenities, the rental rates are also lower, which is clearly a key factor.

While traditional four-year colleges (which typically have the financial resources and institutional heft to build and expand contiguously to existing campuses) have been fairly slow to move into retail spaces, the diverse nature of the educational uses that have embraced retail boxes is truly eye-opening. From community colleges and trade

schools, to training and certification programs and other alternative educational institutions, the depth and breadth of educational opportunities is enormous—and continuing to grow at an extremely rapid pace. Table 5-1 provides a sample of these tenants.

To give some idea of just how diverse these programs and institutions can be, consider Virginia College, which offers both online and traditional coursework across the South, from North Carolina to Texas, and from Florida to Tennessee. Many of their 27 locations are found in traditional retail settings.

Virginia College offers diploma and certificate programs (including programs such as cosmetology, pastry arts, therapeutic massage, HVAC technician and medical billing), to associate’s and bachelor’s degrees (in specialties such as occupational therapy, network engineering, 3D imaging and animation, human resource management, and paralegal studies) and even master’s degrees (in health care, business administration, management, criminal justice and cybersecurity). All told, nearly 50 different diplomas, certifications and degrees are offered.

Virginia College, a private, for-profit, post-secondary institution, typifies the type of alternative educational tenant—fast-growing, non-traditional, geographically diverse—that can derive the greatest benefit from affordable big boxes in and around shopping centers. In fact, it is likely that the school’s ability to offer so many different programs in so many different locations is directly tied to its ability to identify and utilize vacant boxes.

For this type of educational tenant, convenience and accessibility are key parts of their value proposition to target students—and key advantages offered by available retail space.

Costs and Considerations

While there are plenty of reasons to view educational institutions as prime candidates to move into available commercial boxes at malls and open-air centers, there are—as with many non-traditional tenants—some unique considerations and challenges that must be accounted for. First and foremost, there needs to be a clear understanding between the educational tenants and the landlord/owner/developer as to how and when that space is going to be used.

One of the primary concerns is parking, particularly how the need for periodic high-volume parking might impact other tenants. Retail uses¹ typically require

¹ See, for instance, *Parking Requirements for Shopping Centers, Second Edition* (New York: International Council of Shopping Centers, 1999).

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anywhere from four to five spaces for every 1,000 square feet (sf) of retail space, but parking ratios for educational uses can skew much higher. In Anaheim, Calif., for example, the difference is stark: for most standard commercial uses, city ordinances require 5.5 spaces for every 1,000 sf—for educational institutions, however, the number is 20 spaces per 1,000 sf.

On the face of it, that is a worrying figure. As institutions and landlords can attest, however, there are reasons why parking might be less of a concern with educational tenants.

Not only do students tend to be more willing to use mass transit—and many existing shopping centers are connected or adjacent to such lines—but peak parking demand for many educational institutions is likely to be primarily during periods when the rest of the mall is experiencing comparatively lighter traffic.

Moreover, because mall parking lots are mostly designed and built for maximum capacity during the holidays, they are more likely to be able to handle higher parking demand. Also, students themselves are unlikely to impact the most competitive retail parking times—as classes are rarely held during the holidays.

Another complex and potentially thorny issue is the fact that educational uses may require a more expensive and expansive build-out, particularly with regards to the technical infrastructure. From high-speed WiFi to complex audio-visual requirements, the spaces used by schools and educational centers often need an electrical and technical upgrade that can raise the build-out price tag significantly. While not on the same level as medical uses/facilities in terms of additional requirements, educational

build-out expenses are a factor that needs to be taken into consideration.

Some boxes will be further along than others with regard to electrical and technical infrastructure, but for those that are lagging behind this is an issue which could be a literal and figurative deal-breaker. Landlords typically do not have the cash to fund similarly extensive costs right now, and, while there are many ways to structure a deal, ironing out the details of such a transaction can present a number of sticking points for both sides.

Graduation Day

With retail boxes at malls and power centers offering accessibility, utility, practicality and affordability, the continued movement of educational institutions into commercial venues seems like a certainty. While the trend is on the upswing, educational uses are still relatively rare compared to other alternative uses.

In that context, it is fair to ask: if there are so many aspects in favor of this phenomenon, why has it not yet truly taken off?

Part of the answer almost certainly stems from institutional inertia—both on the part of commercial centers and the educational institutions themselves. Change is hard, and breaking out of old mindsets to capitalize on new opportunities is a challenge.

But, as antiquated notions of what educational facilities should look like fall by the wayside, as alternative educational programs continue to gain momentum and popularity, and as the general public becomes increasingly familiar with an ever-expanding definition of "mixed use," the three R's of reading, writing, and arithmetic might have to add a fourth: retail.



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Medical Facilities: Key Component of the Non-Retail Tenant Mix

Two Canadian Case Studies Highlight Use in Action

HERMANN KIRCHER*

Abstract: *Non-retail tenants play an increasingly larger role in all but the most dominant regional shopping centers. The blend of viable retail uses and medical facilities has proven to be an excellent combination, as demonstrated in the two Canadian centers spotlighted in this article.*

Introduction

Non-retail tenants are common in all types of shopping centers. In large regional centers, particularly “fortress centers” with at least several department stores, such tenants usually consist of services. There they play a relatively minor role, comprising between 5% and 10% of total retail space.

For mature small regional and community-type centers, however, non-retail tenants play an increasingly more significant role. This can also be the case for a well-merchandised center, with good anchor tenants, that is impacted by a larger, more modern traditional center or power center complex, particularly in a no- or small-growth market.

Non-retail tenants in shopping centers now include a growing assortment of services and special uses. For example, major entertainment features, educational facilities and health clubs are common features, as well as museums, libraries and art galleries. Other frequent non-retail tenants include general office space and regional as well as local government office uses.

In the past, medical tenants were usually found in office buildings. However, one of the most rapidly growing non-retail uses in shopping centers now comprises medical specialist and dental space, together with associated support services such as radiology and dialysis centers, labs and clinics, as well as physical rehab spaces providing outpatient services in a non-acute setting.

The typical layout of a regional mall (or community-type center) and its subdivision into a variety of individual units lends itself well to conversion to medical space, frequently at more affordable rent levels than existing alternatives. Moreover, older centers tend to be located in mature residential areas, where the age structure of the local population requires superior access to a wide variety

of medical services. This article will focus on two Canadian centers that combine viable retailing with medical facilities.

Meadowlark Centre

Currently a one-level, enclosed center with 300,000 square feet (sf) of commercial space, Meadowlark Centre in Edmonton, Alberta, opened as a typical community shopping center in 1963. Its initial anchor tenants included a junior department store; Canadian Tire, a retail and automotive service operation; and Safeway supermarket. As the largest center in its market area, it operated successfully for almost 20 years.

In 1981, West Edmonton Mall (WEM), a super-regional shopping center, opened less than 2 kilometers (km), or about four city blocks, west of Meadowlark. Following rapid expansion, it now comprises several million sf of retail space, including more than 800 tenants and major entertainment facilities.

The opening and subsequent expansion of WEM impacted Meadowlark Centre, not only by attracting some of its major tenants but also by over-saturating the local market area, which was only growing moderately. There was simply not enough market potential for Meadowlark to continue operating in its traditional format.

Gradually, Meadowlark evolved into what it is now known as “Meadowlark Health and Shopping Centre.” Although it was successful in attracting a Wal-Mart store, replacing an existing Zellers discount department store, and maintaining the Safeway as well as Shoppers Drug Mart, its enclosed mall portion was totally reconfigured into a medical mall.

The mall includes some 70 medical professionals, including labs, diagnostic services, medical imaging, a surgical center and an array of medical and dental

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Figure 6-1
Meadowlark Centre (Edmonton, Alberta)



Source: Hermann Kircher. Used with permission.

specialists. (Figure 6-1 shows an exterior shot of the center with tenant Shoppers Drug Mart.)

Due to the great number and diversity of medical services, customers are provided with a one-stop location for most outpatient needs. Car accessibility and abundant available free parking, traditionally associated with any shopping center, are also major attractions for customers, particularly because of the premium parking cost associated with typical medical buildings. The concentration of medical services at Meadowlark has also led to the building of a freestanding medical/professional

Figure 6-2
Store Directory, Meadowlark Centre
(Edmonton, Alberta)



Source: Hermann Kircher. Used with permission.

building adjacent to the shopping center.

The redevelopment of Meadowlark and its successful use of non-retail tenants may be unique, but it does offer a direction for revitalizing some centers with similar locational attributes. Of particular interest is the fact that Meadowlark is still a shopping center, with Wal-Mart, Safeway and Shoppers Drug Mart as significant tenants,

Figure 6-3
Store Directory, Westmount Shopping Centre
(London, Ontario)



Source: <http://www.westmountshoppingcentre.com/>

as seen in the store directory in Figure 6-2. Besides these large retailers, Meadowlark has 18 financial, fast-food and convenience-store tenants, as well as a large governmental office tenant, "Alberta Works Centre," which offers career and employment services, workshops, work search assistance, and information about funding for training.

Westmount Shopping Centre

Westmount Shopping Centre in London, Ontario, is a regional, two-level enclosed center that opened in 1971. Its anchor tenants include Target, Sears, SuperKing SuperMarket, and Cineplex Odeon and VIP Cinemas. Figure 6-3 shows the floor plan of the mall.

Westmount was the dominant shopping center in southwest London for many years, until a power center, comprising about 1 million sf of retail space, opened some 2 km south. Not only did Westmount lose some of its major tenants, but the overall retail market demand was stretched beyond realistic retail space requirements. Not enough retail potential in the market area existed to support both existing and new facilities.

Westmount struggled for some time under different owners before it was finally decided that operating a two-level mall was no longer a realistic goal, despite the prominent anchor tenants. The upper level was successfully converted to non-retail tenants with medical facilities comprising the principal uses. The single largest tenant is the Kidney Care Centre, providing dialysis. There are five other medical services as well as several

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financial and educational services. The Municipal Property Assessment Corporation is also a large space user.

It is important to note that though the retail function of the center has moderated due to local economic conditions, Westmount has adjusted to the new reality of a constraint market. This partial re-use of an existing shopping center not only maintained an important service function for the local community but also preserved the value of the investment.

Conclusion

Non-retail tenants, particularly medical uses, will become a more important tenant group in mature non-

dominant regional malls and community centers. This is particularly relevant for centers that maintain a viable retail component. Medical and associated health care tenants tend to have strong credit credentials, usually seek long leases and have a low default rate, thus qualifying as desirable tenants.

In comparison to standard retail store leases, leases suitable to health care tenants need to be moderated regarding permitted uses, exclusives, radius clauses and several other clauses such as operating hours, co-tenancies, odors, and similar factors. One additional benefit of having medical tenants is that they will not likely be impacted by the growing impact of E-commerce.



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The Right Fit for Canadian Shopping Centers

Demographic, Leasing Considerations Fuel Fitness Club Presence

KRISTA MALING*

Abstract: The North American fitness industry, already worth \$25 billion, is expected to grow significantly. Increasingly, fitness clubs are joining grocery stores, banks and pharmacies as anchor tenants in shopping centers. This article discusses how one rapidly expanding company, Canada's GoodLife Fitness, has taken advantage of the ample parking, large, flexible spaces and convenient locations in shopping centers to reach members in their own neighborhoods.

Introduction

With obesity rates at record highs and a steadily aging population, demand has risen in Canada for preventative fitness measures that stress the importance of physical activity and maintaining a healthy lifestyle.

The fitness club sector is experiencing the positive effects of this increasing demand. It is currently a \$25 billion industry in North America¹ and strong growth is projected over the next five to 10 years. Recent International Health, Racquet & Sportsclub Association (IHRSA) research shows 5.7 million Canadians are fitness club members—a record national high. IHRSA studies also indicate that in any given market in Canada, 15% of the adult population will work out in a fitness club.

GoodLife Fitness CEO and founder David Patchell-Evans says although these numbers are impressive, there is room for growth.

"The economy is in recovery mode, the baby boomers are becoming more aware of the importance of fitness. Not only that, but people are looking for a place they can go to learn about physical activity and be around others with similar mindsets and energy," said Patchell-Evans.

Patchell-Evans adds that the company has grown 111% in the last seven years and has more than 325 clubs across Canada, with plans to expand that number to 1,000 clubs. According to Patchell-Evans, the company's goal is for at least one in every 10 Canadians to be a GoodLife Fitness member.

With the majority of its clubs in shopping centers, GoodLife Fitness has developed a few best practices when it comes to location scouting. Patchell-Evans cites strong landlord relationships, strategic locations and synergy among tenants as top considerations when it comes to opening new clubs in shopping centers.

"GoodLife is definitely in growth mode, so it's more important than ever to consider the best locations in every market. To build a club, we look for neighborhoods with a concentration of people within an eight-minute drive of the location."

According to the IHRSA Trend Report, apart from reaching personal fitness goals and a healthy lifestyle, members also continue using their health clubs for the variety of equipment and convenient location. Nearly half (49%) cite "the variety of equipment: both strength and cardiovascular" as a reason for continued use, while a significant segment (25%) also cites the club's conveniently centralized location.

Figure 7-1

Ajax Taunton Meadow Ridge GoodLife Fitness Co-Ed Club, Meadow Ridge Plaza, Ajax, Ontario



Source: Goodlife Fitness

GoodLife Fitness looks for locations with convenient access for members and within easy driving distance for a significant population. The majority of GoodLife Fitness clubs are in neighborhood shopping centers, such as the Ajax Taunton Meadow Ridge GoodLife Fitness Co-Ed club at Meadow Ridge Plaza in Ajax, Ontario in Figure 7-1. But the company considers regional and super-regional locations whenever they offer the right combination of environment and accessibility for GoodLife members.

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¹ International Health, Racquet & Sportsclub Association, *The 2014 IHRSA Global Report*.

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"There has to be lots of accessible parking, and an open, well-ventilated space. Also, the tenant mix is incredibly important," Patchell-Evans explains. "We couldn't grow at the rate we have without excellent landlord partners who help us find and build our clubs to meet all these requirements."

Fitness Clubs' Appeal to Landlords

GoodLife's realtor, Phil Sorrell of Primecore Realty Inc., says the company works closely with shopping center management to study traffic patterns and track success. As a rule, traffic to shopping centers increases when fitness clubs join the tenant list, he notes.

"Neighborhood and community shopping centers often see customers stopping in two to three times a week to do their banking, pick up groceries, drop off a prescription or grab dinner," Sorrell says. "Increasingly, fitness clubs are joining pharmacies, banks, restaurants, and liquor/beer stores as core tenants at neighborhood food-anchored shopping centers. The convenience of being able to shop, dine, do business and work out improves the overall experience at the shopping center—it makes the center more of a destination."

Sorrell emphasizes that for larger regional shopping centers, accommodating fitness clubs makes good sense. As more and more people build fitness into their routines, access to a fitness club is one more significant reason to make additional trips to the local mall.

"Fitness clubs bring in more potential customers with disposable income and those numbers promise to grow. The average GoodLife Fitness club sees between 500 and 700 unique check-ins each day. As a company, we're working to increase our membership to give every Canadian the opportunity to live a fit and healthy good life, so traffic to our clubs will only increase," Sorrell says.

"A typical GoodLife Fitness member works out two to three times a week. With this many people coming through club doors daily, and each member coming several times a week, spin-off business is inevitable."

Fitness-club traffic enables shopping centers to maintain both activity throughout the week and extended hours each day. The busiest day for a fitness club is Monday, and traffic tends to decline gradually as the week progresses. Fridays, Saturdays and Sundays are the slowest days at fitness clubs, but this is when retail traffic is highest.

Sorrell adds that brand recognition is another factor that contributes to clubs like GoodLife Fitness being a smart fit for shopping centers. "Experience tells us the best possible situation is when we're part of the early stages in planning a shopping center development," he

says. "As an anchor tenant, we can often help draw traffic and our brand can help spread the word in the early stages. It can also provide a draw for other tenants."

Paul Lessner, vice president of leasing for central Canada with First Capital Asset Management ULC, says a fitness club tenant is part of the overall experience his company seeks to provide in a mixed-use development. With offices, housing and retail outlets in one center, easy access to a fitness club can set the tone for the entire development. Juice bars, sporting goods stores and health focused restaurants and stores often cluster in centers with fitness clubs.

"Since we focus mainly on urban centers, our goal is to bring in tenants that contribute to neighborhood convenience. Having a fitness club contributes to a healthy living theme at a shopping center," Lessner says. "It can influence the type of restaurants and retailers that choose to locate there. First Capital seeks to have a fitness club at most of our developments because it increases traffic outside the usual hours and draws in neighborhood residents."

Lessner says fitness clubs are perfect tenants for many larger, unconventional spaces and vacancies, especially those left by downsizing big-box retailers: "We're in touch with our fitness club tenants regularly and when these opportunities arise, we let them know."

The Lure of Shopping Centers as Potential Locations

Patchell-Evans started GoodLife Fitness in a shopping center in London, Ontario in 1979. He says even back then, shopping centers were the perfect venue for fitness clubs because they offer plenty of space, parking and convenient access.

"Shopping centers offer great space in high-traffic neighborhoods," he notes. "GoodLife Fitness looks to build its new clubs close to where people live and work. Shopping centers offer this access."

In terms of the type of shopping center space that works for GoodLife, Sorrell says it depends on the neighborhood. In suburban areas, a traditional space is perfect, but in the downtown core, GoodLife is more open to innovative and unique locations.

"Fitness clubs require high ceilings and good air circulation to create a comfortable environment for members to work out without overheating. It's important to have daylight and sufficient, convenient parking, particularly in suburban areas," he explained.

"Effective, eye-catching signage is key, especially in an unconventional space. We need people to know we're there and to be able to find us easily."

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Depending on the strength of the fitness club brand, co-tenants can be an important consideration. Grocery stores, banks and pharmacies are strategic options because they draw customers to the shopping center several times a week. For fitness clubs, the goal is to be part of the weekly, or daily, routine.

"We make sure we locate our clubs in shopping centers where the typical customer matches the typical member. It's important to have the synergy between the retailers, the club and the clientele. We want to be aligned with the demographic profile of the area," Sorrell said.

GoodLife Fitness launched its lower-cost fitness-club model, Fit4Less, in August 2014, targeting potential members with slightly lower incomes who prioritize fitness but do not require the additional services and facilities. That enables the company to offer different club concepts in the same market, provided the market is large enough and deep enough demographically.

"Our primary goal is to ensure we reach the most people with the opportunity to connect with physical fitness," Sorrell said.

Club Size and Leasing

Sorrell explains the typical GoodLife Fitness club is 24,000 square feet (sf), but the company has clubs as large as 80,000 sf and many that are smaller.

"We're flexible when it comes to availability of free space. Ideally, we're looking for 24,000 sf, but we're always open to different size ranges and configurations. In many cases, we'll take second floor, or a split-level space and multi-story space some retailers might avoid."

Sorrell says GoodLife Fitness often needs a location with room for expansion. "We need to be nimble—so it's important to us to have a healthy, long-standing relationship with our landlords."

With the announcement of Fit4Less, GoodLife's space requirements are varied. The Fit4Less clubs require less space because they focus more on good-quality fitness equipment without the need for large change rooms, childcare or group exercise facilities. Sorrell says ideally the company requires 10,000 to 12,000 sf for the Fit4Less concept, but remains flexible, depending on the market and specific location.

Demographics Driving the Growth of Gyms

According to Patchell-Evans, the conditions are looking positive for fitness industry growth on a global scale. Over the next five to 10 years, the fitness industry will benefit from increased youth and baby boomer memberships. There is growing public interest in fitness and the need to counter the rising obesity rate, and membership expansion is expected to outpace population growth.

As consumer income grows in line with the recovering economy, there will be more capacity to take advantage of fitness clubs, and memberships will continue to rise.

"We're seeing growth in membership as a large portion of Canadians reach the age of 55 and older. Older Canadians are looking to maintain their good health, flexibility and strength."

With its full-service GoodLife Fitness clubs and its more streamlined, lower-cost, Fit4Less clubs, GoodLife Fitness is poised to reach Canadians with different priorities and varying budgets.

Other Issues Related to Fitness

According to Sorrell, the rise of mixed-use developments in urban centers is a positive step for fitness clubs such as GoodLife Fitness. Developments that include office space, housing, retail space and restaurants are conducive to fitness clubs.

"The idea is to create a village feel in a downtown center. Fitness centers fit perfectly in these one-stop environments, which contribute to urban density and help revitalize cities."

Patchell-Evans stresses that the fitness industry has experienced growth both during both the 2007-2009 recession and the subsequent recovery. The implication is that, for landlords, fitness clubs are relatively stable, recession-proof tenants that can bring stability to shopping center traffic.

"It's a win-win partnership," Patchell-Evans says. "Fitness clubs transform the shopping mall experience and deliver more traffic during off times. In return, we get abundant, open space, convenient locations and parking, and a connection with the right neighborhoods."

Krista Maling is the Director of Public Relations for GoodLife Fitness. She graduated from McGill University in 1998 and completed her post-graduate degree in public relations at Humber College. Ms. Maling worked in healthcare public relations for a number of years at such organizations as SickKids, Hamilton Health Sciences and Baycrest. For further information related to this article, please contact her at kmaling@goodlifefitness.com.

Non-Retail Tenants Gain in Importance

Successful Centers Will Be Most Adaptive to Change

PHILIP EVANS*

Abstract: *The retail industry is on the verge of a fundamental structural change. Facing the challenges of market saturation and e-commerce, industry leaders must reinvent shopping centers with new and unique concepts that cater to the needs of New Age consumers. This paper looks to the past, the present and the future of shopping centers, the outlook of the industry, how new technologies can be used to the industry's advantage, and in particular, the transformation of the tenant mix. While examining the dynamic growth of significant trends and revolutionary concepts, this paper proposes solutions that may facilitate the long-term survival of bricks-and-mortar retail, at the heart of which lies the importance of non-retail tenants.*

The retail market is undergoing its most significant transformation since the shopping center revolution of the postwar era. Widespread structural change will fundamentally alter how bricks-and-mortar schemes operate. Yet in this environment, brave innovators and trendsetters will continue to prosper, proving the Darwinian notion that survivors in competitive struggles are not the strongest or even the most intelligent, but those most adaptive to change.

Evolution of the Shopping Center in the West

Since the birth of the world's first enclosed, climate-controlled mall in the 1950s (Southdale Shopping Center in Edina, Minn.), the evolution of bricks-and-mortar retail has come a long way. In the beginning, shopping centers consisted of a gallery of small shops focused on fast-moving consumer goods and complimentary functions (mainly services and fast food). Later, with the huge success of the shopping center concept and ever-increasing traffic, upsize requirements created the first racetracks, then corridors, accommodating not only the original functions, but fashion/clothing-related functions as well. Initially, the fashion offer in shopping centers comprised many small boutique-type shops (large international chains / anchor tenants appeared later at the expense of local retailers). With time, landlords and property managers recognized the added value of entertainment components within the tenant mix in order to drive traffic, increase dwell time and appeal to a wider customer base. Early initiatives were focused on cinemas, and later on, functions such as bowling. Depending on available plots, larger centers began to emerge (with

areas for social gathering and events), which started to resemble the classic shopping center one is familiar with today.

Following decades of replication of the concept and tremendous growth in shopping center supply, the formula started to look old, with oversaturated markets and similar/identical offer in each center. Differentiation consequently was determined mainly by location and somewhat by design factors. As the number of shopping centers grew, differentiation through unique selling propositions became ever more essential, and industry leaders began to pave the way to what can be seen more intensively today—a breakthrough of new and unique concepts, most of which are built around the expansion of non-retail components within the tenant mix. This trend and its importance is increasing exponentially as new technologies revolutionize the shopping center industry, while significantly transforming the consumer and retail markets of today and tomorrow.

In 2008 and 2009, already beset by fierce competition, falling consumer spending, and retailers turned suddenly cautious after aggressive expansion, the shopping center market suffered a double blow from the global economic crisis and the threat of e-commerce.

Shopping center developments in the pipeline were either scrapped or delayed. Subsequent activity has focused more on renovation, revitalization and reconceptualization of existing centers. As new center development projects dwindled, some retailers began focusing on "right-sizing," optimizing their network of units, and increasing their online presence. Consequently, the industry has been witnessing a redistribution of space.

* Chief Executive Officer, TriGranit Management

A number of new store concepts are opening, while other tenants are downsizing, especially in certain retail product categories (e.g., electronics), as focus shifts towards other non-retail functions: food and beverage (F&B), leisure and services.

Industry players are beginning to realize that new, innovative strategies and unique concepts are not only vital to ensuring success and competitive edge, but have become indispensable to maintaining the long-term survival of their business.

Today's Consumer Needs and Behavior

From local flea markets and high-street retail, through modern shopping centers, to the digital revolution and New Age shopping and entertainment centers, consumers are constantly evolving, adapting to the dynamic retail market and the rapid development of new technologies. With the visitor profile and the market changing so rapidly, in-depth consumer research conducted on a regular basis is essential in order to evaluate, track and benchmark key metrics such as visitor profile, dwell time, conversion rates, visiting frequency, spend, satisfaction, penetration rates, etc.

The market has shifted from an egocentric "Me Economy" to a socially conscious "We Economy." Today's consumers are more engaged, socially conscious, educated and seeking real-life experiences, rather than focusing solely on excessive consumption. The needs of family, community, society and the Earth weigh more heavily in peoples' lives now than in the past and greatly influence their purchasing decisions. Accordingly, shopping centers need to place a higher value on family, community and experiential retailing. Leisure-based centers catering to families are more likely to entice higher-spending visitors with longer dwell time.

Consumers are quickly adapting to the digital revolution. E-commerce, combined with smartphones and tablet devices, not only offer consumers competitive prices due to lower operational costs of e-retail, but also provide the largest assortment and quantity of products ever available to them, just a few clicks away, accessible from anywhere. Furthermore, this technology functions as an invaluable research tool to shoppers before they leave

their homes and inside the store.¹ Consequently, modern consumers have become more comfortable, knowledgeable, aware, and opportunistic.

That mindset carries over to convenience, an increasingly precious asset in a world where everyone is in a hurry and lacks time. Brick-and-mortar stores retain a traditional advantage: a setting where shoppers can touch and simultaneously compare merchandise in close physical proximity. But e-commerce and m-commerce enable shoppers to purchase without the need to leave where they are.

On the other hand, as consumers become ever more dependent on the Internet, their smartphones and their tablets, their needs for real-life leisure and entertainment experiences (to balance their technological addictions) are increasing rapidly. Many parents have begun to shield their children from technology, citing the danger of incomplete, handicapped lives devoid of imagination, ingenuity and wonder.² This is a battle that shopping centers can win. As convenience and the Internet break down community structures, retail shops may respond by growing larger and becoming more like distribution centers, providing customers with an interactive experience. Early e-commerce experiences were where retailers tried to replicate their retail stores on-line; now the cutting-edge retailers are replicating their on-line experience in-store. (Some examples of the latter include Amazon, with its first bricks-and-mortar store on 34th Street in New York, as well as other online retailers who have opened physical storefronts such as clothier Bonobos Inc., eyeglass purveyor Warby Parker, subscription beauty-products service Birchbox, and Burberry.)³

Today, shopping centers are becoming more than just a shopping destination. Industry leaders are beginning to position their centers as places that offer meaningful, lifestyle experiences—fun family destinations where all age groups can spend quality free time together. This is something the Internet cannot and possibly never will be able to offer. Shopping centers, therefore, need to offer consumers more non-retail (focusing on features which can only be experienced in the physical world) in order to compete with the convenience of e-commerce and to

¹ See, for instance, "The Importance of Thanksgiving Weekend: Shopping Centers at the Heart of the Holidays," *Retail Real Estate Business Conditions* (Vol. 11, No. 17), November 21, 2014.

² Valerie Strauss, "Is Technology Sapping Children's Creativity?" ("The Answer Sheet" blog), *Washington Post*, September 13, 2012, retrieved December 16, 2014.

³ See Glen Bensinger and Keiko Morris, "Amazon to Open First Brick-and-Mortar Site," *Wall Street Journal*, October 9, 2014, retrieved January 9, 2015; "Authentic Branding for a Global Audience: Angela Ahrendts (Future of StoryTelling 2013)," YouTube video (September 16, 2013), retrieved January 9, 2015.

meet the increasing demand for physical leisure and entertainment.

Impact of New Technologies and Emerging Consumer Trends

The impact of e-commerce and m-commerce on traditional bricks-and-mortar retail, already substantial, continues to grow quickly every year. To take the U.K. as an example, Internet retailing grew by 16% year over year (YoY) in 2014, according to the *IMRG-Capgemini eRetail Sales Index*. The forecast for 2015 is 12% market growth and £116 billion to be spent online. E-retail now accounts for an estimated 24% of the total retail market in the U.K.⁴ (Central and Eastern Europe, where Poland leads the way, is still far behind the U.K. and U.S.)

Rise of M-Retail

While these figures may be unsettling for shopping center managers and landlords, even more interesting is the rise of mobile (m-) retail. Interactive Media in Retail Group (IMRG), the industry association for e-retail in the U.K., reported a 55% YoY increase in sales via mobile devices (smartphones and tablets) in 2014. M-retail now accounts for 37% of the nation’s online retail market and an estimated 8.9% of total retail sales.⁵

Click and Collect

Indicative of its progress, e-retail now offers a wider range of collection and delivery options, including same-day delivery. However, the market seems to be shifting towards the click-and-collect formula, rather than just click-and-delivery, mainly due to the absence of shipping and return fees, the possibility of testing/trying on products prior to purchase, and the inconvenience of waiting for a package to arrive. According to IMRG, the increase in m-retail was facilitated by a rise in click/reserve and collect services, which now take a prominent role in the shopping journey, and already account for one-quarter of multichannel retailers’ turnover.⁶ The click-and-collect model is welcomed by trendsetting shopping center managers and landlords alike, who are already devising new concepts to meet future consumer demands.

As shopping becomes more and more of a leisurely activity and mobile technology fundamentally changes the

way that consumers interact with brands and allows consumers to shop while on the move, shopping centers need to incorporate synergic solutions into modernized business models. The inevitable merging of physical and online retail can provide consumers with the advantages of technology while accommodating their valued desire for real-life stimulus, physical leisure and entertainment, and experiential retail.

Transformation of the Tenant Mix

Leasing agents have to be more responsive to consumer behavior, changes in the market and retailers’ perceptions of themselves. Leisure and entertainment components have become ever more crucial to attract visitors, who can then be converted into customers through various cross-promotional techniques.

Generally speaking, the tenant mix of a typical enclosed mall today comprises from about 6% to 10% leisure. As retail industry leaders begin to reposition their centers, leisure components in the short term are expected to increase to an optimal 25% of the tenant mix.⁷ While the food court gains importance, there needs to be a higher emphasis on family restaurants, both fine and casual dining, cafes and bars, as well as expansion of service components.

Appropriate clustering of retail product categories is also important. Services should be located close to the hypermarket (driving daily needs), whereas fashion should be clustered with fashion and lifestyle. Moreover, hypermarkets should be restricted to community centers, located close to residential hubs, with lifestyle centers providing only a smaller supermarket for basket (convenience) shopping.

Increasing Importance of Non-Retail Tenants

Traditional hypermarket-anchored schemes may need to be repositioned with new concepts or complemented by alternative uses. Hypermarkets drive convenience retail (short dwell time with high frequency of visits), whereas shopping is becoming more of a leisure pastime, and shopping centers need to adapt accordingly. There is a growing demand for more leisure-based centers—not just cinema and food court—but more services, entertainment and edutainment that cater to the needs of visitors. Based

⁴ Interactive Media in Retail Group (IMRG), “UK Online Sales Exceed £100 Billion in 2014,” January 15, 2015 press release, retrieved January 16, 2015. The *Index* tracks online sales, which it defines as “transactions completed fully, including payment, via interactive channels” from any location, including in-store.

⁵ *Ibid.*

⁶ *Ibid.*

⁷ The 25% is based on the author’s industry experience and professional expert opinion, forecasted by TriGranit in conjunction with its Head of Leasing.

Figure 8-1
KidZania®, The Dubai Mall



Source: Emaar Retail LLC

on the author’s observations in Europe, the Middle East, Asia and Australia, the footprint of the leisure and F&B offering in recent shopping center developments and renovations is already becoming much larger.

Services (post office, dry cleaners, telecommunications, fitness, medical, shoe repair, etc.) are vital to accommodate the daily non-retail needs of consumers. Consumer demands for services are changing and shopping centers should tailor their service offer accordingly. For instance, banks, formerly reliable long-term tenants, no longer drive traffic as they used to, largely because of the arrival, development and high penetration of Internet banking. In this day and age, customers rarely need to visit a physical bank. Ideally, leasing and property managers should focus on offering services which cannot be utilized online, further enticing consumers. These should be complemented by unique, specialized services that can offer a more pleasant, convenient and comfortable visiting experience in their shopping centers, such as concierge and VIP services, centralized home delivery, free WiFi, work areas with power outlets for laptops and mobile phones, children’s play areas/babysitting/baby rooms, cloakrooms, valet parking and car wash, expert shopping/product advice and consultancy, electric vehicle-charging station, bicycle-related services, well-trained customer service staff, etc.

The growing importance of leisure pastime, entertainment and edutainment in shopping centers is one of the most promising solutions to the threats of e-commerce and market saturation. Generally speaking, people have always had the desire to be inspired and fascinated by unique experiences. As technology lures people deeper into the online world, these needs will continue to grow. Among the top subjects on the

Figure 8-2
Urban Adventure, by Urban Legacies



Source: Urban Legacies Limited

industry’s agenda are the importance of leisure offerings in shopping centers and the creation of breakthrough concepts which entice consumers. Leisure and entertainment are gradually becoming an integral part of shopping centers’ marketing strategies, and for now, they are still an effective means of image differentiation.

Shopping centers need to move away from costly architectural features (fountains, etc.), and include high-adrenalin activities (such as climbing walls) that cater to teenagers, but also encourage other shoppers to pause and watch. Edutainment concepts can appeal to both children and adults and provide excellent synergy with brands/tenants. Unique edutainment concepts that allow children to role-play traditionally adult activities in realistically themed educational environments, authentically programmed to mimic real life, will be the winners. Parents can safely leave their children at the indoor theme park (comprising a miniature city complete with buildings, paved streets, vehicles, and a functioning economy) and do their shopping in the meantime. (See, for instance, KidZania®, as shown in Figure 8-1.)

Other leisure operators such as Urban Adventure by Urban Legacies (see Figure 8-2) provide a dedicated and innovative experience specializing in leisure, entertainment and F&B, thus responding to and capitalizing on the growing demand for more interactive and stimulating leisure.

Some Middle East malls (such as The Dubai Mall, in Figure 8-3) are trendsetters for family-leisure and

Figure 8-3

Dubai Aquarium & Underwater Zoo, The Dubai Mall



Source: Emaar Retail LLC

entertainment destinations. Their non-retail component comprises edutainment centers, indoor theme parks, ice rinks, aquariums and “underwater zoos,” a real dinosaur exhibition, an indoor ski slope, 22-screen cinemas, fitness centers, an A380 flight simulator. They also contain one of the largest and most extensive F&B offers including a number of food courts, fine-dining restaurants, as well as outdoor cafes and restaurants along waterfront promenades.

These malls are prime examples of leading family and entertainment centers that provide the industry a sneak preview of the future of bricks-and-mortar retail.

The F&B offer should be tailored to the demographic profile of the trade area and current market intricacies. Food courts drive convenience retail, whereas the emphasis is shifting towards experiential retail required to attract families. For that reason, the greater F&B concentration in the tenant mix is expected to continue in the future.

Leasing and property managers should ensure that visitors are able to find everything (fun, food and shopping) all in one place at a single destination, which contributes to visiting frequency, loyalty and dwell time, a better image of the shopping center, communication and public relations, which all convert to higher traffic and sales, better rent-to-sales ratios for tenants, etc. With a strong non-retail strategy, shopping centers can differentiate with unique concepts to beat the ever-growing competition in the market.

The Shopping Center of the Future

The successful shopping center of the future will be profoundly unlike anything currently seen. It will offer a complete real-life experience focusing on leisure pastime, entertainment and edutainment, services and F&B. A typical shopping journey in the future will likely begin online before continuing inside centers providing visitors with experiential retail. (This is already happening to some degree, as approximately three-quarters of shoppers during the back-to-school and holiday seasons in 2014 researched merchandise online before going to stores.⁸)

These centers will perfectly merge the physical and online worlds through sophisticated omni-channel strategies, which innovative shopping-center managers are already developing and implementing.

In omni-channel marketing for shopping centers, not only should all communication channels (touch screens, website, mobile app, etc.) share the same content management system, but offers, messages and interactions should look and behave the same. More important, they should be personalized based on customers’ interactions in other channels. For example, when visitors redeem particular vouchers printed from a touch screen inside the center, then the content of the center’s website during their next visits would be modified according to this interaction. Together with micro localization technology facilitated by smartphones, Bluetooth Low Energy Beacons, WiFi triangulation, GSM⁹ relays triangulation, and global positioning systems, omni-channel platforms will detect a visitor, allowing shopping center managers to send targeted messages (e.g., a discount on jeans when the visitor walks by a favorite jeans store), ensuring that the customer receives the right message, in the right place, at the right time. This will create unique experiences, which will lead to increased customer engagement and loyalty, as well as higher conversion rates as a result of precisely targeted messages.

Shopping centers of the future will facilitate social interactions and provide a full-day experience for families and groups of friends alike. At the heart of this center will be the leisure pastime offer. An unprecedented proportion of gross leasable area (GLA) will be allocated to leisure, entertainment and edutainment functions, including new and unique concepts targeting all age groups.

⁸ “The Importance of Thanksgiving Weekend”; “A Promising Back-to-School Season in the U.S.: Rising Spending Should Benefit Bricks-and-Mortar Retail,” *Retail Real Estate Business Conditions* (Vol. 11, No. 15), July 21, 2014.

⁹ GSM (Global System for Mobile communications) is an open, digital cellular technology used for transmitting mobile voice and data services.

Services which cannot be utilized online and accommodate everyday needs will also play a vital role. The F&B function will not be limited to an improved food court, but will provide a wide range of options from fine and family dining to casual dining, cafes and bars that interact with the entertainment components. Tenants will become much closer partners with shopping center managers/owners and participate more actively in collective marketing initiatives and events. Events will also have an increased role in enhancing the full off-line experience. A much larger proportion of shopping centers' marketing budgets will be reallocated from traditional activities towards signature events that drive traffic.

Retail in the shopping center of the future will consist mainly of showrooms accompanied by click/reserve and collect points. Many online orders will be placed for delivery, but many will be reserved or purchased online and collected at click-and-collect points located within the centers. Showrooms will provide consumers with the opportunity to test, see and feel products such as electronic equipment/devices, to try on clothing, shoes, etc. There will be no inventory in stock, only product samples showcased for consumers. Retail logistics will be optimized in the future; thus, product prices in the physical world will be balanced by those in the online world. Through the Internet via in-store tablets/touchscreens or their own smartphones, consumers in showrooms will order products that would be delivered to them or collected by them later. All showroom purchases—as a matter of fact, all purchases in general—will be shipped from the brand's regional central distribution warehouse to either the chosen click-and-collect point or address of delivery.

Property managers' roles and responsibilities will be focused on consistent, active joint-marketing initiatives in conjunction with tenants, on-site cross-promotional activities, more regular organization of events, management of sophisticated omni-channel systems, reporting data to both tenants and landlords/asset managers, achieving operational efficiency, optimization of the tenant mix to continuously enhance the service, leisure/entertainment, F&B offerings and always fine-tuning for new and unique attractions, just to name a few. In other words, property managers will be busier than ever, but the main focus will be on driving traffic.

Traffic will be the main performance indicator in the future, not sales generated in the center. It will be the key to measuring success and the basis of income for

operators and owners. Rental fees will no longer be determined by total sales or sales productivity measures of retail units, but rather payable based on the achieved traffic figures. Center operators will be accountable for driving traffic, while tenants will have an increased role and responsibility to reach targeted conversion rates of those "leisure seekers" who visited the center to have fun and entered the showrooms as part of the experience.

21st Century Property Managers and Owners

In contrast with the early history of the shopping center industry, when the pace of innovation was set largely by North America and Western Europe, some of the best shopping centers with a large leisure attraction are increasingly found in the United Arab Emirates, Singapore, China or Japan. In this new environment, with huge differences in maturity and characteristics of various retail markets, it is essential for owners and operators of shopping centers to travel the world and understand what the latest and greatest concepts are and how they function. In these challenging times, proactive property managers must focus on driving performance, visitor numbers and dwell time, think outside the box, and devise and implement revolutionary concepts.

In terms of market positioning, convenience retail is shifting towards experiential retail, targeting families with a better level of disposable income. A 21st-century shopping center manager's duty is to innovate and adapt in order to maintain and increase traffic and dwell time, in which the tenants need to play a more active role in capitalizing on traffic in order to achieve successful conversion rates and sustainable sales through better marketing and cross-promotional activities.

Average trip duration at U.S. malls averages a little less than an hour and a half.¹⁰ This can be increased not by improving the fashion mix, but by adding alternative leisure components and activities for children and their parents in order to entice families for a day out, thereby improving the visitor mix.

Today's shopping center operators need to constantly adapt to ever-changing market conditions by identifying new trends and developing new strategies to match the evolving habits of New Age consumers. Shopping centers need to differentiate themselves by embracing new technologies and better marketing tools (e.g., developing omni-channel strategies), as well as putting greater emphasis on customer services by establishing more sophisticated loyalty and customer care programs.

¹⁰ ICSC Research, "QuickStats," Table 217, "U.S. Mall Consumer Shopping Patterns Statistics Summary," retrieved December 19, 2014.

Conclusion

With competition greater than ever before and consumers more careful about spending, shopping centers need to offer more than just traditional retail to differentiate themselves and to draw in visitors. Shopping centers need to refresh themselves by appealing to consumers' lifestyles. This can be accomplished by reshuffling the tenant mix to increase the non-retail components (new entertainment/edutainment/leisure concepts, F&B, food court, restaurants, coffee shops, bars, and services).

From a property manager's or landlord's perspective in the short run, a larger non-retail offer translates to higher

visiting frequency, traffic and dwell time, more families visiting, and improved marketing and public relations. These all lead to maintaining a competitive edge, increasing turnover and thereby tenant satisfaction, which result in the ultimate goal of achieving higher rental levels and income, hence greater yields and value of the asset.

As center owners and managers adapt to continuing developments in e-commerce with innovations and new concepts focused on non-retail tenants, they will be assuring the long-term sustainability of the shopping center—and laying the cornerstone for a new era of retailing.



Philip Evans joined TriGranit Management (TGM) in December 2011 with a mandate to internationalize the operational arm of the TriGranit Group. His role is to introduce best practices and standardization of operational procedures across the group, with specific responsibility for asset management, leasing, marketing, facilities management and finance. In 2012, he restructured the organization and took TGM into two new markets and won significant new third-party mandates. Now TGM has a mixed portfolio valued in excess of €2bn spread across 14 countries on three continents.

With more than 28 years of leasing and asset-management experience, Mr. Evans has held a number of strategic positions. Before joining TGM, he worked for Al-Futtaim Group Real Estate (AFGRE) in Dubai. During this time, he was primarily responsible for directing a strategic approach to the commercial and retail leasing for three Festival Centre mall projects in Dubai, Cairo and Doha Festival City, totaling 7.5 million square feet of GLA. He joined Al-Futtaim Group Real Estate (AFGRE) in early 2008 as Director of Retail Leasing and was later promoted to Director for all commercial and retail activities, encompassing mall operation, leasing and marketing. Prior to AFGRE, he was a Partner with global real estate consultants Cushman & Wakefield.

His experience spans a variety of markets including Syria, Jordan, Greece, Turkey, Cyprus, Russia, Central Europe, Spain, Romania and Bulgaria and, more recently, China. He has also been a main board member of the British Council of Shopping Centres (BCSC) and Vice Chairman of the Hellenic Committee of the International Council of Shopping Centers (ICSC).

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