Expanding Entertainment Tenants Add Experiences to Shopping Centers (Part II)
Leasing, Marketing and Operational Factors Must Be Analyzed Carefully

Abstract: This article analyzes the forces behind the growing number of entertainment tenants in U.S. shopping centers. It is based on interviews with Chris Pine, Executive Vice President of Anchor and Big Box Leasing, Brookfield Properties, and Randy White, CEO, White Hutchinson Leisure & Learning Group. Part II discusses general considerations—e.g., the landlord’s perspective, impacts on center traffic and co-tenanting synergies, evaluating potential entertainment tenants, and the advantages of such tenants locating in shopping centers—the place of entertainment tenants in shopping center marketing; and potential challenges in including them in centers.

I. Entertainment in Retail Real Estate: General Considerations

1. Landlord perspective
   Entertainment tenants offer different options and advantages as landlords field the best possible location-specific tenant mix:
   - **They serve as new anchors, with possible significant upside for revenue streams.** The tenant type that most obviously fits this role would be a movie theater. Although not as large as a full-line department store, a larger cinema—up to 40,000 or 50,000 square feet—can function very well as, in effect, a junior anchor. Moreover, these theaters can be more lucrative than older tenants that have faded. Audiences seem to be responding well to new luxury theaters featuring reclining seats and upgraded concessions. Moreover, these renovated spaces can be managed more cost-effectively than the former spaces. Because of increased concession sales, as well as better management of seating (through in-person and online booking) and of occupancy costs, increases of 30% to 50% after reseating are possible in these theaters. These spaces can also be rented to small groups before films are shown during the day, further driving revenues.
   - **They represent a wider array of offerings while providing landlords continued flexibility.** Many entertainment tenants have the ability to enhance their spaces for greater visitor appeal. Furthermore, landlords may find it easier to incorporate their square footage needs, at least partly because vacant department stores provide extra space to mix and match with other tenants. A theater “box,” for instance, can be repurposed from 20 screens to 12, with the extra space given over to an arcade, bowling or similar concept.
   - **They offer the possibility of a dynamic, rather than static, lineup.** After assessing the performance of a particular entertainment tenant or tenants, a landlord can then “layer in” other experiences, such as a Warner Brothers, a Discovery Channel or a Dave & Buster’s. A variety of tenants can appeal to different demographic cohorts: e.g., KidZania (for children) and Pinstripes (baby boomers). A particularly interesting new phenomenon is eSports, or videogame competitions that are often organized and feature multiple players. The heart of the fan base is still young, with 35% from ages 25 to 34, another 26% from ages 18 to 24 and the median age being 31. With live streaming accessible across

### Key Takeaways

- **Landlords** often find that entertainment tenants can serve as new anchors, offer the possibility of a dynamic lineup, and reframe the monetary proposition of the shopping center.
- Entertainment tenants can **drive traffic during slower periods.**
- **Food-and-beverage (F&B) units** need to be examined further for their synergies with entertainment tenants—particularly luxury theaters.
- **Factors in evaluating entertainment tenants** include rate of change, competitors, diverse financial models, integration of entertainment around the common area, and eliciting deal-structure information from other industry professionals.
- **Advantages that an entertainment tenant might enjoy** in retail real estate include prime locations, expansive parking and placement amid a convenient, all-in-one marketplace.
- Entertainment tenants **facilitate a center’s marketing** by broadening its appeal.
- **Challenges** that may come up when adding an entertainment tenant include space restrictions, lease negotiation issues and relocation of other tenants.
continents, eSports can potentially appeal to international tourists as well as malls’ regular domestic customers. Furthermore, their popularity with players and spectators is expected to rise due to improving technology, better graphics and the low cost of entry of online gaming. Though currently only about 2.0% of eSports lounges and virtual reality (VR) arcades occupy mall space, that percentage could easily increase as landlords and these prospective tenants examine more closely how such tenancies will benefit each side.1

- They complement other tenant categories. These other uses, such as F&B and fitness tenants, will have a different primary purpose than entertainment tenants, but offer a similar sensory experience. All these tenants, with their synergies, form a critical mass or cluster of experiences that cannot be found in the home. Already, consumers are showing a strong preference for such clusters of hybrid uses: 49% of adults say that restaurants that combine their F&B offering with a leisure and entertainment component are significantly more appealing than those without any activities.2

- They reframe the monetary proposition of shopping centers. The old landlord paradigm was, “I rent space”; the new paradigm may well be, “I create experiences for customers.” Over the last several years, a conversation has taken place within the shopping center industry over the continued viability of the sales-per-square-foot metric in an environment in which omnichannel marketing has become more mainstream.3 In the future, an experience—especially for entertainment tenants—may become at least one element in an alternative metric gauging the real value of a physical space.

2. Impacts on center traffic and co-tenancing synergies

In many ways, entertainment tenants enable shopping center owners to bolster operations. While November and December, for instance, represent the strongest season on the retail calendar, the summer is the film industry’s. Attendance at movie theaters, then, can help generate traffic during months that are comparatively slacker for retail real estate.

But entertainment tenants can drive traffic not only during quieter seasons, but also during particular times of the day or days of the week that attract fewer visitors. Some entertainment tenants may draw more customers at night or on weekends. Others may attract corporate employees for lunchtime events, or retirees during various times of the day.

Major prospective entertainment tenants may request exterior access, which may promote business (such as movies, which pick up after 5 pm and end near midnight) when the rest of the center is closed.4 Current in-line tenants may also benefit from these entertainment tenants, so interior access may also be helpful.

In terms of co-tenancing synergies, F&B tenants have long been located near movie theaters. At first glance, it might appear that the increased culinary choices in luxury cinemas would lower sales in surrounding F&B establishments, but that may not be the case. Not only do many entertainment tenants like restaurants as co-tenants, but theaters with their own F&B offerings appear to have generated interest in additional food options elsewhere within shopping centers. Half (50%) of adult consumers indicate that it is “extremely important” or “important” for convenience that food services be near leisure and entertainment.5

3. Evaluating potential entertainment tenants

In evaluating potential entertainment tenants, several factors should be kept in mind:

- Rate of change: Technology is accelerating how quickly tenants have to reappraise and renovate their footprints and offerings. Which forces could alter or even disrupt a business? Can the entertainment tenant adapt? Movie theaters represent as good an example as any to demonstrate these forces. Before the current trend of luxury cinemas, the motion picture industry had not only embarked on a construction boom for megaplexes (i.e., featuring 14 or more screens), but also was faced with the need to convert to digital projectors, costing five times more than the traditional 35 mm projector formerly used in the industry.6 Both tenants and landlords contemplating multi-year leases must consider how similar sweeping changes in technology and culture can affect business in the future.

- Competitors: The many different types of entertainment tenants mean that at least for a while, most categories will not become oversaturated. But rapid growth in some areas may signal that these will have to be watched carefully, by both tenant and landlord. For instance, Dave & Buster’s, encountering more rivals, experienced four straight quarters of negative same-store sales starting in Q3 2017. It returned to positive territory by revamping their menus and introducing more proprietary, limited-time content via their VR platform.7

- Entertainment tenants are not “plug-and-play” concepts: The broad range of these tenants has another important implication: a diversity of financial models. Assessing these must be done more than usual on a case-by-case basis. A landlord cannot simply assume that a success or failure of a tenant or tenant type in one center will apply elsewhere.

- Grouping entertainment tenants: Which ones work best? And should they be clustered in an entertainment “zone” or spaced out throughout the center? In upstate New York, the Shops at Ithaca Mall chose the “cluster” option, with The Entertainment Zone, Great Escape Adventures and Jump Around Inflatables grouped together.

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3 Brenna O’Roarty and Alan Billingsley, “Exploring New Leasing Models in an Omni-Channel World” (ICSC), September 2015, p. 43.
• **Exchanging information with other industry professionals on deal structures:** Because movie theaters are longtime tenants in shopping centers, their lease terms can be comparatively easy to determine. The same would generally apply for any tenant often found across a large portfolio of centers. Lease terms, however, are not as easy to determine when it comes to newer companies or tenant types without much of a track record. In these instances, it is best to confer with a broker to understand what typical deals/leases with newer entertainment tenants would entail.

4. Advantages of an entertainment tenant locating in retail real estate

Among the advantages that an entertainment tenant might enjoy in retail real estate, a few especially stand out:

• **The properties are located on prime real estate.** The sites tend to be located on highways, crossroads or the intersections of major streets, so both visibility and vehicular traffic are likely to be substantial.

• **Visitors will likely find more expansive parking space than they would on a single-tenant site.** Movie theaters can be most easily accommodated by being placed on the center’s periphery, where their customers—who usually stay for several hours—will not take spaces normally used by retail patrons.

• **Today’s diversified uses are increasing convenience, a longtime asset of shopping centers.** From the beginning of the industry, centers have served as all-in-one marketplaces. Now, beyond just retail, consumers can visit for the full range of their needs. They will not only do more while on the site, but also be exposed to more establishments they may patronize in the near future, such as an entertainment tenant. This preference is driving momentum toward the “live, work, shop, play” developments increasingly in vogue in the last few years: Nearly four-fifths (78%) of U.S. adults would consider residing in such environments that have a variety of housing, workplaces, dining and recreational outlets for entertainment all within close proximity to one another.8

II. The Importance of Entertainment to Retail Real Estate Marketing

Entertainment tenants are important to the marketing of a shopping center or mixed-use center because they broaden its appeal. Consumers can experience pleasure or amusement alone at home, through TV, video games and the Internet. But physical locations enable them to do so in groups, making the experience more memorable.

In relation to entertainment, perhaps the most fascinating aspect of consumers is not so much their interest in high-tech gadgetry (though this has certainly been growing), but instead the tenacious appeal of longer-established tenants. High-tech entertainment units such as laser tag tenants necessitate high maintenance to avoid problems with reliability, and must watch carefully new competition posed by improved at-home augmented reality and VR technology.9 Low-tech tenants, on the other hand, may not require much new equipment. A ball and players are often enough to produce onlookers. This confirms the social aspects of such activities.

What entertainment tenants produce are experiences. Such tenants are increasingly prized in today’s market—and likely to become even more so in tomorrow’s.

III. Potential Challenges

As they consider adding entertainment tenants, shopping center landlords will want to weigh several challenges that may arise:

• **Entertainment tenants’ flexibility may help them fit a space but not necessarily secure financing.** Like retailers, some entertainment tenants are experimenting with smaller prototypes to expand into new markets. They also have the choice of tearing down an existing structure and building from scratch versus simply retrofitting an existing space. But the result of this is that often, each project becomes one of a kind. The prospective tenant might then struggle with a blueprint, while a landlord might feel at sea without comparable data to help finance construction of build-to-suite projects.10

• **Even with more enhanced options than before, a physical space still poses limits and restrains expectations.** Entertainment tenants prefer clear-span, open-environment layouts. An empty anchor offers owners more choice in how to mix and match tenants. Nevertheless, issues related to height and capacity, for instance, mean that only so much can be done to a space. Or, as one construction management professional has succinctly summarized it: “Expectations must be realistic—for example, it is not possible to recreate Hogwarts in a mall.”11

• **What constitutes a long-term entertainment trend vs. a short-term fad?** Much is riding on this fundamental issue—not just whether a landlord is willing to commit time and resources now to a new tenant, but whether it makes sense to make a lengthy commitment to this new addition to its lineup. One large owner’s general lease terms for entertainment run 10 years with two five-year options. (There are exceptions, with some primary terms running 15 years with three five-year options.)

• **Be proactive on safety issues.** The most obvious tenant categories to which this applies would be trampoline centers and axe-throwing facilities. In the latter case, landlords can start by ensuring that insurance carriers even consider this activity an acceptable risk. As further precautions, they will want to be sure the facility assigns a staff member to monitor the two lanes; places barriers between players and spectators; puts in place procedures for keeping alcohol

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8 "Mixed-Use Properties: A Convenient Option for Shoppers.”
11 Ibid; Martin Zurauskas, "Integrating Entertainment Into Retail Destinations — It's More Than Just a Movie Theater;” Shopping Center Business, January 9, 2019 (blog post).
consumption within strict bounds; and replaces boards often to avoid splinters.  

- **Lease negotiation issues.** Other tenants’ concerns about enforcing restrictive clauses in leases against entertainment tenants have faded as vacancies have been filled and center traffic has increased. But this easier co-existence does not mean that these newer tenants necessarily solve all leasing issues that may arise from their presence. For example, will landlords use tenant improvement packages once offered department stores to entice theaters to occupy the spaces left by their predecessors? That may boil down to how badly owners want these prospective tenants and how much other desirable vacant space exists in the area that would increase the theater’s leverage in the negotiations. A landlord could balk if a theater wants to be the only tenant allowed to sell candy or popcorn. Some entertainment tenants may request exterior signage or access. Other issues that may arise include security, noise, operating hours, occupancy and crowd control/monitoring, alcohol concerns, assignment/subletting and special events.  

- **A new tenant may involve relocating other tenants.** The addition of an entertainment tenant, for all its benefits, may also have a ripple effect. An existing tenant or tenants may have to be moved elsewhere on the property to accommodate the space needs of the new tenant. In that case, new language may need to be inserted into a current retailer’s lease in order to adjust the overall tenant mix now and to re-lease the space in the future. The landlord may need similar language to preserve its flexibility in revamping the common area to seamlessly incorporate entertainment tenants into its fold.

### IV. Conclusion

Entertainment tenants form an essential element as landlords transform their once retail-dominated centers into what A.T. Kearney has called “consumer engagement spaces.” But, for all the excitement they inject into retail properties, they cannot be substituted at will in vacant spaces without carefully analyzing not only how they might operate by themselves, but also in tandem with retail and non-retail tenants alike. As entertainment tenants become more visible in shopping centers, with a record of individual successes and failures established, landlords will be better able to assess their best uses.

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13 Tran and Schmitz, "Amenity-Rich Movie Theaters as Anchor Tenants."  
14 Glenn A. Browne, “Relocation Within an Enclosed Regional Mall: Key Elements to Consider,” *Shopping Center Law & Strategy*, (ICSC), Fall 2017, pp. 22-23.  

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