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Expanding Entertainment Tenants Add Experiences to Shopping Centers (Part I)

What Makes These Tenants So Attractive to Landlords

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/Development, Brookfield Properties, and Randy White, CEO, [White Hutchinson Leisure & Learning Group](). Part I highlights how a combination of start-ups and established firms with new formats have increased, in both open-air centers and enclosed malls, the numbers and varieties of these tenants; the surprising sources of strength of these tenants; and how the various regions differ in terms of growth. Also discussed are the long-range factors supporting these tenants' expansions, including demographics and the impact of technology.*

Shopping center veterans are likely to feel a sense of déjà vu whenever discussions turn to entertainment: After all, in the mid-1990s, the notion engaged the attention of the industry then, too, as landlords, brick-and-mortar stores and food-and-beverage (F&B) tenants sought to differentiate themselves by adding entertainment as secondary draws. But today, rather than being used as secondary elements to lure customers to purchase goods or foods, entertainment tenants offer themselves as primary experiences and anchors.

Macro Trends

1. Entertainment tenants grow in numbers and varieties

Though bringing entertainment into shopping centers is not new, the amount and evolution of these entertainment concepts are. From Q1 2010 to Q1 2019, the amount of entertainment square footage occupied grew 44.7% in malls and 68.5% in non-mall (i.e., neighborhood, community, power and "other" centers) settings, in data provided by CoStar Realty Inc.

CoStar divides shopping center entertainment tenants into three broad groups:

- ***Movie theaters*** typically range from 15,000 to 40,000 square feet;
- ***Arcades, bowling and dining***, ranging from 5,000 to 30,000 square feet, includes locations with arcade-type attractions; bowling centers and restaurant/arcade attractions are also included as they often feature coin-operated machines, and F&B forms only a complementary hybrid component of an entertainment use; and,
- ***Active entertainment***, covering from 5,000 to 60,000 square feet, contains such elements as indoor rides, escape rooms, trampoline parks, mini-golf, motor sports, laser tags arenas and fun centers.

Though the first two groups have represented a major presence in shopping centers for some years now, active entertainment has become far more significant over the last decade. This reflects growth in the larger environment for these businesses in the United States. For instance, escape rooms grew from

Key Takeaways

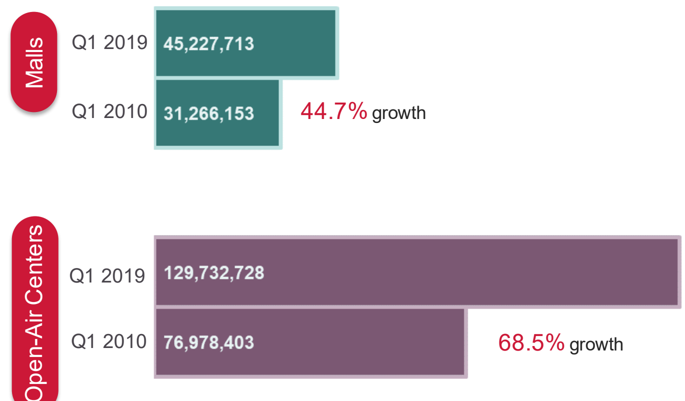
Although entertainment tenants have long been an element of the shopping center industry, they have grown in numbers, variety and importance in the last decade:

- ***Entertainment square footage occupied grew*** 44.7% in malls and 68.5% in non-mall settings from Q1 2010 to Q1 2019.
- ***Open-air (or non-mall) centers have approximately five times more entertainment tenants than malls***, and those open-air centers have nearly triple the amount of space for entertainment tenants that malls do. These gains are at least partly because there are more open-air centers than enclosed malls.
- Movie theaters occupy the greatest share of mall space, but are ***exceeded in percentage growth gains by other entertainment groups***: first, active entertainment; second, arcades, bowling and dining.
- Measured by space growth for the Q1 2010-Q1 2019 period, ***the South led the four regions for movie theaters in malls*** (+33.2).
- The rise in entertainment tenants is being affected by two long-range factors: ***demographics*** (especially educational levels and age) and ***out-of-home entertainment spending***.
- ***Technology*** is also transforming the role of entertainment in shopping centers, through such means as a greater orientation toward experiences; the creation of new retail concepts through virtual and augmented reality; increased user expectations; social media; and voice technology.

approximately two dozen facilities at the end of 2014 to more than 2,300 through Q2 2018.[1]

As a result of all this activity, more entertainment companies are involved in the industry now than in the 1990s. Not only are there more start-ups (e.g., Two-Bit Circus, GameWorks), but more existing companies have stepped forth with new subsidiaries. This latter phenomenon reflects the parent companies' heightened ability to evolve "within the box," incorporating virtual reality sets and game sets, for instance. Not only are food operations blending into entertainment uses (e.g., Dave & Buster's), but theater chains such as Cinergy Entertainment Group are adding noncinematic elements such as virtual reality games, bowling and other options.[2] (See the Appendix on page 5 for a list of the top 10 entertainment tenants among the three groups for both mall and non-mall settings.)

Chart 1
Growth in Entertainment Tenant Square Footage Occupied



Source: CoStar Realty Information Inc.

2. Presence in open-air centers and enclosed malls

In 2019, open-air (non-mall) centers outnumber enclosed malls in terms of actual amount of occupied square footage (approximately 129.7 million vs. 45.2 million) and growth of space from Q1 2010 to Q1 2019 (+68.5% vs. +44.7%).

The non-mall group has approximately five times more entertainment tenants and nearly triple the amount of space for entertainment tenants than malls do. (See Chart 1.) This is partly due to movie theaters' large footprints (size averages are 51,241 square feet in malls and 31,104 in non-malls, according to Costar). Theaters make natural fits for vacant big-box spaces, and remain the focus of shopping center entertainment.

But in terms of percentage growth from Q1 2010 to Q1 2019, theaters (+27.9%) are being outpaced by the other two groups (+142.6% for arcades/bowling/dining, and +450.8% for active entertainment) in malls. The situation is similar in non-mall settings, with theater space gaining 45.8% but not as much as arcades/bowling/dining (+80.2%) and active entertainment (+589.9%). (See Chart 2.)

Regional breakdowns among the three uses also reveal much about their growth patterns. Measured by percentage of growth in space for the Q1 2010 to Q1 2019 period, the South led the four regions for movie theaters in malls (+33.2%), with the Northeast setting the pace in arcades, bowling and dining (+276.1%) and the West doing so, by a whopping margin, in active entertainment (+1,958.7%, versus the +1,375.7% in the Midwest). For non-mall space in this period, the Midwest led in percentage of space growth in theaters (+51.3%) and arcades, bowling and dining (+109.0%), with the South ahead for active entertainment (+804.1%). (See Chart 3.)

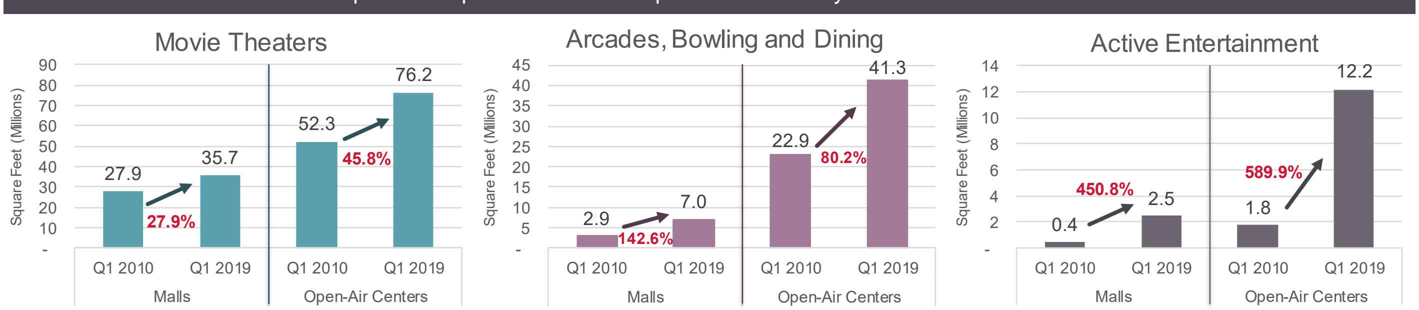
3. Long-range factors impacting the industry

The rise in entertainment tenants is being affected by a couple of long-range factors.

The first factor affecting the direction and impact of Americans' interest in entertainment is ***demographics***. An often-overlooked aspect of this is that ***educational levels*** are key in arts and entertainment participation. More than two-thirds (71%) of entertainment and arts spending in 2017, for instance, was by consumers with bachelor's degrees or higher, as seen in Chart 4. In contrast, those with a high school degree or less tended more to stay at home.

Consequently, since about the year 2000, the population of entertainment users has bifurcated, even gentrified. Affluent consumers expect more for their money, so to succeed entertainment tenants must offer elevated experiences that lure users out of their homes. For people who do go out, it is not an issue of cost but of time—they want to know if they are getting value for their time. With more and more options, they want to feel that they are getting the best experience for the time invested.

Chart 2
Space Occupied in Malls and Open-Air Centers by Entertainment Tenants



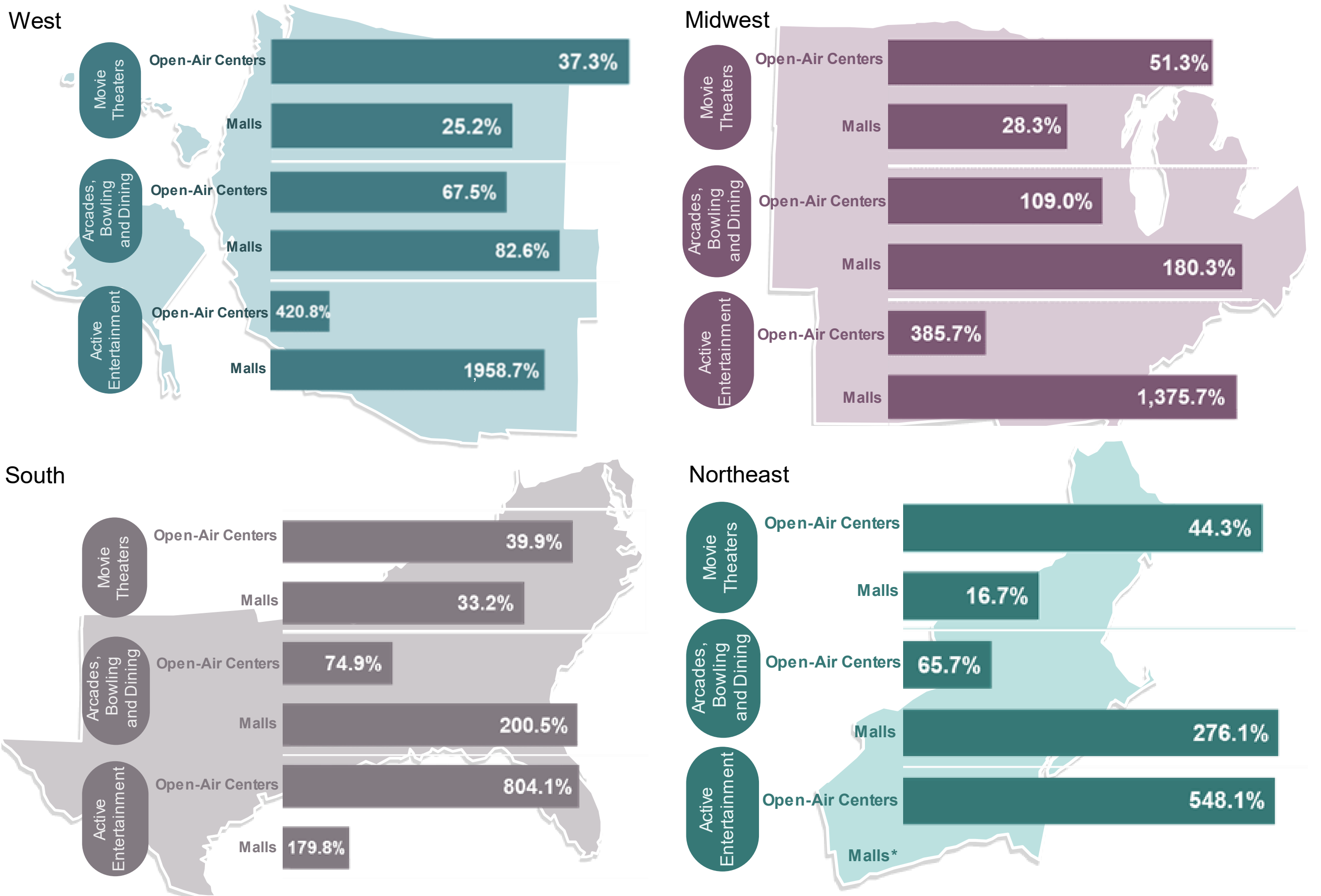
Source: CoStar Realty Information Inc.

[1] Lisa Spira, "July 2018 Escape Room Industry Growth Study," *https://roomescapeartist.com*, July 28, 2018.

[2] Steve McLinden, "Theater Operators Tell RECon How They're Adding Entertaining Experiences to Properties," *Shopping Centers Today*, May 23, 2019; Tim Schooley, "Cinergy Entertainment to Establish Entertainment Anchor for Newbury Market in South Fayette," *Pittsburgh Business Times*, April 27, 2019.

Chart 3

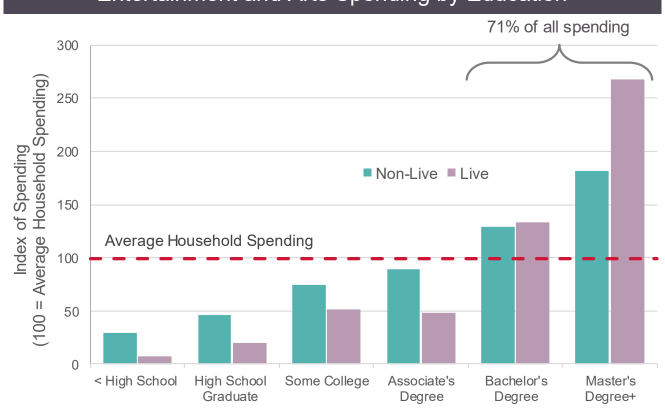
Regional Growth of Space Occupied for Entertainment Tenants in Malls and Open-Air Centers (Q1 2010–Q1 2019)



Source: CoStar Realty Information Inc. * Data are not available for mall active entertainment.

Chart 4

2017 Index of All Live and Non-Live Community-Based Entertainment and Arts Spending by Education



Source: U.S. Department of Labor Consumer Expenditure Survey/White Hutchinson Leisure & Learning Group

Consumers' educational levels are especially important when considering the much-debated issue of ***whether entertainment is a recession-proof industry***. The movie industry survived the Great Depression of the 1930s, but the impact of that great upheaval may have been mitigated by moviegoers' fascination with a new form growing continually more sophisticated: the "talkie."[3] The effect of the 2007-09 Global Financial Crisis may have been less crushing on the entertainment industry than on other sectors possibly because individuals most oriented toward arts-and-entertainment participation and spending were college graduates who were the most affluent part of the population and the least likely to suffer unemployment. It might be more correct to say, then, that though movies and the rest of the entertainment industry are not recession-proof, they may be recession-*resistant.*

Besides education, an additional demographic element in the intense entertainment activity taking place has been age/generation. In particular, Millennials, who are interested in "Instagrammable moments," are making an impact in the marketplace, as the age group most likely to spend on leisure/entertainment activities in shopping centers (53%).[4] Their energy is being felt in group experiences, whether at Top Golf, Main Event, Dave & Buster's or Round One.

A second factor affecting the industry is ***out-of-home (OOH) entertainment spending***. From 2013 to 2016, according to the

[3] Paul Bond, "Hollywood Assumes Crash Position: How 'Recession Proof' Is Showbiz?", *The Hollywood Reporter*, December 18, 2018.

[4] "Mixed-Use Properties: A Convenient Option for Shoppers," *Industry Insights: Consumer Series*, April 12, 2019, p. 2.

U.S. Department of Labor, average inflation-adjusted OOH entertainment spending rose by 12%, with trip-related (i.e., tourism) entertainment spending growing by 24%. In contrast, local community-based entertainment spending increased only 6%, with three-quarters of that gain coming from live events, such as plays, theater and concerts.[5]

A form of entertainment with significant growth has been ***digital entertainment spending***—equipment, software, and services—which rose 71% from 2000 to 2016. While the OOH entertainment spending increase represented only 8% of the 2013-2016 total dollar increase for average household entertainment spending, the remaining 92% was for digital entertainment.[6]

4. The impact of technology

As with other non-retail uses also studied by ICSC—hotels, health, and fitness—***technology*** is affecting the role of entertainment in shopping centers, in the following ways:

- ***E-commerce has shifted the orientation of shopping centers away from commodities and toward experiences***. Goods may be purchased and delivered at home, but the need for memorable experiences exists outside it. In this new "experience economy," shopping centers are increasingly seeking tenants to fill this yearning for social activities.
- ***Augmented reality (AR) and virtual reality (VR) are creating entirely new concepts***. Technology will not only transform the in-store retail experience, but also generate new uses for space. These potential new tenants may even come from outside the United States. Legend Heroes Park is looking to expand beyond its Singapore base, for instance, to U.S. locations in major metro markets.[7]
- ***"Digitization of place" raises user expectations***. When VR and AR are available in homes, centers must offer experiences that consumers cannot find there. The need to have an entertainment tenant that is more unusual, more spectacular, even more expensive, heightens.
- ***Entertainment tenants must also deal with the "fidelity-convenience tradeoff."*** VR and AR are not the only technologies that can affect the home and the shopping center as entertainment competitors. The greater convenience of entertainment yielded by the digital revolution raises the bar for OOH entertainment. For instance, digital downloading then entails the need for greater quality and fidelity in concerts or music festivals.
- ***Social media is increasing "social capital***." With each post, users share something novel. In the experience economy, "conspicuous consumption," available to only a few, through ownership of material goods, is out; "conspicuous leisure," involving sharing moments of personal happiness—and, in the process, enhancing one's status—is in.[8]
- ***"Repeat appeal" of venues becomes more essential in the experience economy***. The insatiable desire for new experiences often brings a "been there, down that" feeling, resulting in one less item on personal "to-do" lists. In this environment, how do traditional location-based entertainment venues compete? Increasingly, they may resort to hybrid forms—not merely a "next-big-thing" such as a new ride, AR or a limited-time event, but also interactive games or F&B offerings—that will lead people to linger and bring them back.[9]
- ***Voice technology may further promote entertainment user engagement***. Usage of voice-enabled digital assistants and voice-assisted speakers is growing. "In the near future, voice-enabled digital assistants and voice-assisted speakers could also provide intriguing platforms for highly targeted advertising and content delivery, with messages informed by a user's specific actions and interests," predicts Kevin Westcott, vice chairman and U.S. Telecommunications, Media and Entertainment leader, Deloitte Consulting LLP.[10]
- ***The challenge posed by streaming services to movie theaters may be overstated***. Long an element in many shopping centers, theaters have taken on even greater importance in the last couple of decades. Some analysts have wondered about the viability of theaters, however, given the rise of Netflix, Disney+, as well as platforms from Comcast, Warner Bros. and Apple. Film professionals point to prior premature forecasts of the industry's decline with the arrival of new technologies such as 3-D, technicolor, television, basic cable, the VCR and smartphones. But in addition, the most frequent moviegoers are also the same people who watch more streaming content, according to a study by EY's Quantitative Economics and Statistics group. Conversely, those who did not see a movie in the prior 12 months were more likely to report less streaming activity than those who attended one film in the same period.[11]

Conclusion

In the past, entertainment tenants were a constant but subsidiary presence in center tenant mixes. Now, they are far more prominent and diverse. Their importance extends beyond filling retail vacancies or even generating traffic. In fact, they are critical in landlords' plans to transform their properties from consumer to community centers. But a host of leasing and operational factors need to be considered before these new tenants can be optimally integrated into these revamped tenant mixes.

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[5] "Out-of-Home Entertainment Expenditures on the Increase," *Leisure e-Newsletter* (White Hutchinson Leisure & Entertainment Group), Vol. XVII, No. 8 (December 2017). "OOH entertainment spending" refers to spending for fees and admissions at entertainment and art venues—family entertainment, theme parks, zoos, science centers, etc.

[6] Ibid.

[7] Dees Stribling, "Virtual Reality Theme Parks Coming To Vacant Mall, Big-Box Space," *www.bisnow.com*, January 30, 2019.

[8] "A Perfect Storm is Disrupting the Legacy Location-Based Entertainment Business Model" (White Hutchinson Leisure & Entertainment Group), June 2019 White Paper.

[9] Ibid.

[10] Deloitte, "Perspectives: 2019 Media and Entertainment Industry Outlook."

[11] Sarah Whitten, "Netflix Isn't Killing Movie Theaters: Viewers Who Stream More Also Go to Cinemas More," *www.cnbc.com*, April 8, 2019; EY Quantitative Economics and Statistics, "Summary of EY Report, 'The Relationship Between Movie Theater Attendance and Streaming Behavior,'" December 2018, pp. 1-2.

Part II will explore specific issues involved with entertainment tenants in retail real estate, including leasing, traffic and other operational issues.

ICSC Research would like to thank *Chris Pine* and *Randy White* for sharing the insights that inform this article.

Appendix

Top 10 Entertainment Tenants by Subtype

Malls

Movie Theaters

1. AMC Theatres
2. Regal Cinemas Inc.
3. Cinemark
4. Harkins Theatres
5. Cobb Theatres
6. Consolidated Theatres
7. Megaplex Theatres
8. Premiere Cinemas
9. Rave Cinemas
10. Century Theatres

Arcades, Bowling and Dining

1. Dave & Buster's
2. Round One Entertainment
3. Chuck E. Cheese
4. Tilt Studio
5. Main Event Entertainment
6. Lucky Strike Entertainment
7. Pinstripes
8. GameWorks
9. Kings Dining & Entertainment
10. Bowlero

Active Entertainment

1. Legoland Discovery Center
2. Sky Zone (US)
3. Medieval Times
4. Glow Golf
5. Jumpstreet Indoor Trampoline Park
6. Altitude Trampoline Park
7. Get Air Trampoline Park
8. Lunar Mini Golf
9. Steel City Indoor Karting
10. Rebounderz

Non-Malls

Movie Theaters

1. AMC Theatres
2. Regal Cinemas Inc.
3. Cinemark
4. Marcus Theatres
5. Harkins Theatres
6. Showcase Cinemas
7. Rave Cinemas
8. Century Theatres
9. Studio Movie Grill
10. Bow Tie Cinemas

Arcades, Bowling and Dining

1. Chuck E. Cheese
2. AMF
3. Dave & Buster's
4. Bowlero
5. Brunswick Zone
6. Main Event Entertainment
7. Peter Piper Pizza
8. Pump It Up
9. Bowl America Incorporated
10. Lucky Strike Entertainment

Active Entertainment

1. Sky Zone (US)
2. Altitude Trampoline Park
3. Get Air Trampoline Park
4. Jumpstreet Indoor Trampoline Park
5. Aurora Cineplex and Fringe Golf
6. Launch Trampoline Park
7. Jumping World
8. Medieval Times
9. K1 Speed
10. Rebounderz

Source: CoStar Realty Information Inc.