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What Shopping Centres Can Learn from the Location-Based Entertainment Sector…

…And How They Can Maximise 'Leisure 2.0' Synergies with Retail

Abstract: *This article is based on an interview recently conducted with Bart Dohmen, Chief Executive Officer of Netherlands-based Unlimited Snow Development, part of leisure experience solution provider Unlimited Leisure Group, and co-owner of TDAC, a consulting company in the leisure industry. It covers the macro trends behind the growth of leisure and entertainment tenants in shopping centres and categorises the diverse and dynamic sector into five key sub-sectors. The new breed of entertainment occupiers, known as 'Leisure 2.0,' are highlighted and the article concludes by discussing the key learnings that retail real estate owners can take from the location-based entertainment sector in order to maximise their collaborative success.*

1. *The Rise of the Experience-Driven Consumer*

Although retail overwhelmingly remains the primary driver behind shopping centres, non-retail tenants, particularly those focused on entertainment and leisure, represent a fast-growing trend influenced by a number of macro factors.

Consumers' identities and social capital are now focused around what they do, what they experience and what they share on social media, rather than what they own. Indeed, a 2017 survey by Euromonitor reveals that, on average, over a third of European consumers prefer to spend their money on experiences rather than things, reaching as high as 42% of consumers in Italy and Turkey. (See Chart 1.) In the U.S. this is even higher at 46%.

These changing values are reflected in the leisure sector attracting one and a half times more discretionary spend than retail and growing twice as fast.[1] So much so that in the UK, £1 in every £5 ***(about 20%) of consumer expenditure was allocated toward leisure in 2017***.[2]

This shift in consumer expenditure towards experiences results from a growing focus on health and wellbeing. The London and New York-based trend forecaster, Stylus, reports that excess digital consumption and acute stress are driving consumers towards real-life immersive experiences that stimulate multiple senses simultaneously and trigger emotional responses.

Lessons Learned

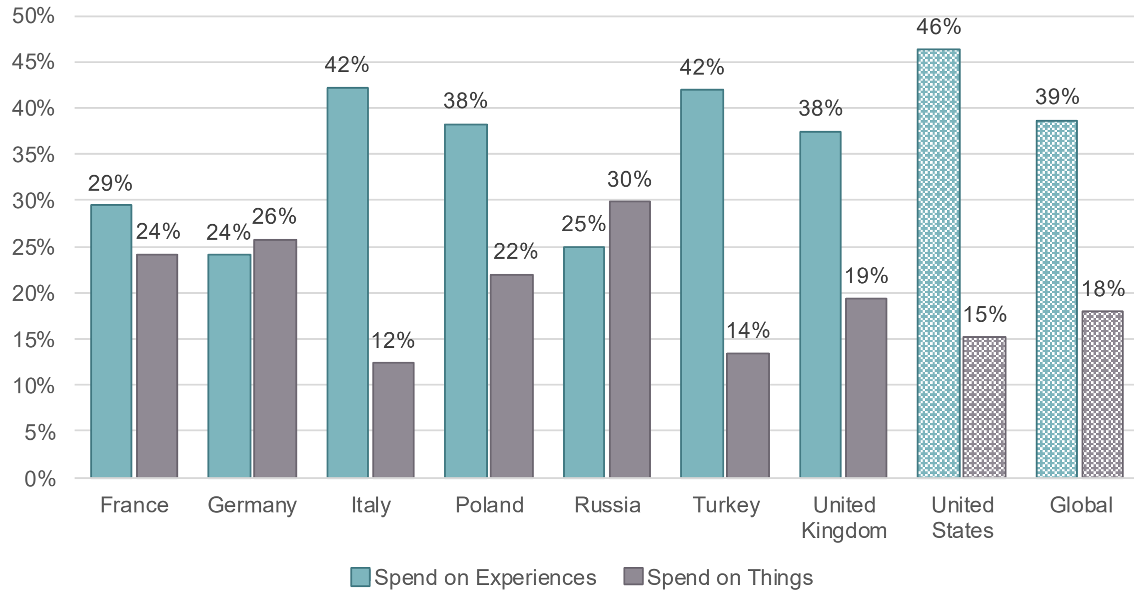
- In the U.K., £1 in every £5 of consumer spending is allocated toward leisure.
- Over a third of European consumers prefer to spend their money on experiences, rather than goods.
- Location-based entertainment is a diverse and dynamic sector that can be categorised into five key subsectors–arts and entertainment, play and activity-based leisure, health and fitness, food and beverage, and heritage/visitor attractions.
- Changing consumer lifestyles and technological advancements are creating a new breed of entertainment occupiers known as 'Leisure 2.0'.

Key learnings from the location-based leisure and entertainment industry for shopping centre landlords:

i. Treat consumers as guests rather than customers;
ii. Create a fully-immersive sensory-led experience and learn from placemaking best practices in other sectors, such as theme parks;
iii. Enlist leisure and entertainment experts for feasibility studies;
iv. Virtual reality has generated much hype but has yet to gain any real traction;
v. Acknowledge the value of leisure and entertainment operators to the wider centre;
vi. An enjoyable, memorable experience is not just about big attractions or unit-based tenants; small entertainment offerings throughout shopping centres can be very effective;
vii. Look to other global regions for new trends and concepts, but do not overlook homegrown operators in connecting with the local community;
viii. Foster greater interaction between retail real estate and location-based entertainment trade associations and other industry organisations.

[1] Deloitte, 'Passion for Leisure: A View on the UK Leisure Consumer,' 2016, p.3.
[2] Knight Frank, 'Retail News: Welcome to the Leisure Dome,' Issue 5, 2017, p.1.

Chart 1
Consumers Prefer to Spend Money on Experiences over Things



Source: Euromonitor International Lifestyles Survey 2017
Note: Shares of consumers in the United States and Globally are used for comparative purposes only.

Sense-led activities support the body and mind while boosting social interaction.[3]

Landlords are diversifying tenant mixes as they transform properties into consumer or lifestyle centres. The inclusion or expansion of leisure and entertainment facilities is an effective way of repurposing vacant space and incorporating diversity, vitality and vibrancy into shopping centres. An integrated and evolving entertainment offer can help meet the everchanging consumer demand and expectation for experience. This in turn can boost dwell time and overall scheme attraction and sales, while extending the trading day and providing consumers with a reason to keep coming back.

Although the mutually beneficial relationship between retail and leisure is widely acknowledged, their interaction is arguably not always executed to full potential. This is, in part, due to a lack of knowledge of the two sectors' culture and business models, and an outdated approach to shopping centre leasing and valuation.

2. A Diverse and Dynamic Sector

Location-based entertainment, taking place out-of-home, has come a long way since the traditional food court, cinema or bowling alley in off-pitch spaces on the upper or lower floors of shopping centres. As the retail industry evolves in accordance with changes in consumer lifestyles and behaviour and technological advancements, so too does the leisure industry. Innovative concepts and formats are producing a diverse, fragmented and dynamic sector, encompassing different property types that can be categorised into the five key groups in Figure 1.

Within these categories, the sector can then be further subdivided by occupier type and whether they are 'traditional' or 'emerging' concepts. What is clear is that there is no such thing as a 'typical' leisure or entertainment operator. Each comes with individual property requirements.

3. Leisure 2.0 – The New Breed of Entertainment Concepts

The Role of Technology in Leisure 2.0

As in the retail industry, technology is both a disruptor and enabler for the leisure sector, particularly through digital technology. But, despite all the new entertainment options, people ***still desire face-to-face interaction and socialising***. What's more, advances in technology are improving convenience and customer service by way of online bookings, cashless payments, self-service and pay on entry, as well as enhancing the activity itself by creating a more immersive environment. This makes out-of-home leisure a more enjoyable and emotive experience that people want to share with friends and family, not only in the moment, but also afterwards on social media.

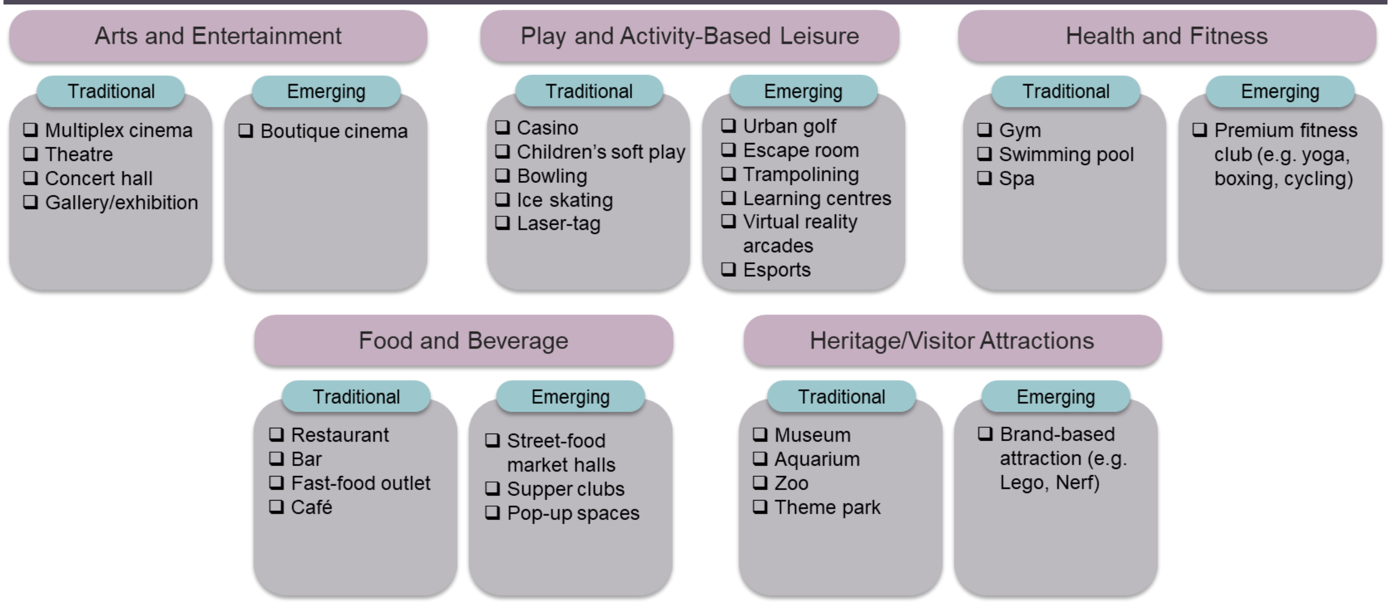
Cinemas: Effective Centre Footfall Drivers

As traditional leisure anchors, cinemas continue to succeed, thanks to operators' ongoing commitment to improved visual and sound systems and 4D/5D effects, coupled with greater hospitality benefits such as reclining seats and waiter service.

They also remain valuable assets to the shopping centre tenant mix. Christophe Cuvillier, CEO of retail real estate owner Unibail-Rodamco-Westfield, has observed that ***cinemas are the most effective non-retail addition to its shopping centres as they can drive between 10% and 15% of traffic***, with these moviegoers then potentially eating and drinking before and/or after the films.[4]

[3] Stylus, 'Sensory Lifestyle–The Sensory Opportunity,' August 2018.
[4] Christophe Cuvillier quoted in Glynn Davis, 'Insight: Physical Retail Space Needs New Metrics to Determine Rentals and Success,' *The Retail Bulletin,* 16 November 2018.

Figure 1
Examples of Emerging and Traditional Occupiers



The London-based Future Laboratory predicts that ***cinemas will remain a hive of convivial activity in the mid-2020s***, becoming a multifaceted, mixed-use destination known as the Fusion Cinema. These cultural community spaces will offer not only movie screenings and other live-streamed activities, such as sporting events, but also co-working, education and community events. In the future, cinemas will offer more family-friendly facilities such as designated children's bathrooms, secure pushchair parking, bean bags, ball pits and child-friendly snacks.[5]

Food and Beverage: Intense Competition Drive Elevated Experiences

Food and beverage (F&B) is particularly important to shopping centres as a bridge between retail and other entertainment uses. The F&B sector has grown rapidly over the past decade, driven by consumer appetite for new flavours and more exotic cuisines. Competition is intense, with a mass of F&B operators ranging from established chains, independent brands, new start-ups and international entrants, leading to concerns about market saturation.

F&B design, ambiance and service are just as important as the quality of the food. Indeed, according to a recent report commissioned by asset manager Legal & General Investment Management (LGIM),[6] this consumer demand for experience is driving the strong growth in food markets (also leveraging off the trend for 'localism'), dining concepts such as supper clubs and pop-up spaces (particularly in the fast-growing fast casual or 'grab-and-go' sector), and restaurants with a strong 'omni-channel' offer, i.e. are active on social media platforms.

Consumers are increasingly brand-agnostic when it comes to eating out, so ***maintaining a high level of repeat visits is an ongoing challenge for F&B operators***—and a key reason why the sector has a high number of business failures, particularly in the mid-market segment.

Competitive Socialising: Gamified Leisure Surging in Popularity

An emerging trend in recent years which shows no sign of diminishing is 'competitive socialising'—i.e., leisure pursuits combined with social activities such as eating and drinking. In the UK alone, ***more than 140 trampoline parks have opened since 2014 and over 840 escape rooms were in operation by July 2017***, only five years after they first opened.[7] This rapid expansion could lead to consolidation as the model pushes out basic operators, so the segment is seeing more diversified offers, such as climbing walls and assault courses.

'Drink and Play' activities, such as urban golf, ping pong and social darts, are also more popular among young professionals, office workers and shoppers. It is expected that other gamified and competitive leisure concepts, such as axe throwing, will gain traction in the coming years.

Virtual Reality: Slow to Gain Traction

According to a recent report by Revo,[8] virtual reality (VR) has been '***widely anticipated as the next big disruptor for the leisure and entertainment industry***,' as price barriers for private consumers provide leisure operators with an opportunity to exploit this type of experience outside of home. However, the research acknowledges that, while gaining some traction, VR is 'not yet a disruptor and as such seems limited to niche applications across the leisure market for the near future.'

Whilst VR has not yet taken off, e-gaming is becoming more popular. The Future Laboratory[9] highlights the growth potential of esports—organised multi-player video game competitions watched

[5] 'The Future of Leisure,' commissioned by Legal & General Investment Management and produced by The Future Laboratory, November 2018, p.52.
[6] *Ibid., p.28.*
[7] 'Leisure Benefits from the Drive Towards Experiences,' CBRE, 2 November 2018, p.3.
[8] 'Evolution of the Leisure Experience; Looking Forward,' Revo and DAC Beachcroft, August 2018, p.19.
[9] 'The Future of Leisure,' p.54.

by spectators—hosted by cinemas. According to a research report from U.S.-based research service provider Business Insider Intelligence, 600 million consumers globally will watch esports in 2023—up from an estimated 378 million in 2018. Cinema operators are looking to capitalise on this sector (e.g., Canada's Cineplex has bought a £7.2 million majority stake in WorldGaming, an esports tournament platform, and has invested a further £3.6 million to create an esports league to be played solely through its chain of cinemas).

Health and Fitness: Polarisation Between Budget and Premium Offers

The health and fitness market has experienced strong growth in recent years as consumers take more control over their physical and mental wellbeing. EuropeActive, a Brussels-based not-for-profit organisation representing the European health and fitness sector, predicts that ***by 2025 there will be 80 million members of health and fitness centres across Europe***.[10]

According to LGIM,[11] this is leading to a polarised health and fitness market. ***Budget models*** offer minimal or no joining fees, 24/7 access and drop-in sessions. In contrast, ***premium, full-service clubs*** often focus on one activity (e.g., boxing, cycling, yoga) and on developing a sense of community, offering small classes, personal training and luxury toiletries, as well as complementary services (e.g., dieticians, osteopaths, massage therapists). Although the budget/boutique brands will continue to expand, they are expected to take smaller units as the focus shifts to shorter, class-based fitness rather than large gym floors.

Learning for Leisure: Supporting the Body and Mind with New Skills

Consumers see broadening their knowledge and developing new skills as means of meeting like-minded people and of supporting the body and mind. As a result, the 'learning for leisure' subsector has huge growth potential, with the emergence of workshops and courses including craft-based activities such as pottery or painting, cookery classes, language or dance lessons.

Branded Attractions: An Opportunity to Build on a Loyal Customer Base

Increasingly, retail brands, such as Lego and Nerf, are moving into the leisure sector with branded attractions. This subsector could work well in a shopping centre alongside stores that sell the brand's retail products. The diversification of existing brands enables a visitor attraction to gain a competitive edge and to differentiate itself from competitors by providing a foundation for all marketing activity. A well-known and trusted brand engenders customer loyalty and long-term commitment, drawing visitors from a wider catchment and encouraging repeat visits.

4. Key Learnings from the Leisure and Entertainment Industry

A Hospitality Ethos

Leisure is no longer solely the business of entertainment but also the business of hospitality and viewing visitors not as customers, but as guests. This ethos of service is becoming more important as brand loyalty becomes more polarised within different leisure sectors, particularly in F&B. Guest retention is increasingly difficult as consumers try out new brands and formats. This has forced the leisure and entertainment industry to improve efficiency and quality, thus upgrading the consumer experience.

According to White Hutchinson's Randy White, value, service and operational excellence are key as '***people would rather spend their time on a premium experience that is more expensive than a mediocre experience at a lower price***.'[12] Shopping centre landlords are adopting a similar hospitality-focused approach.

The Importance of Placemaking

Leisure operators recognise that every interaction creates a personal reaction. ***Authenticity and localism*** are important to both consumers and brands, and concepts need to resonate with the local community.

The location-based entertainment sector understands the importance of placemaking and storytelling and of creating an immersive experience that encompasses design, music, scent, lighting and theatre/action. Bart Dohmen from Unlimited Snow Development highlights theme parks as valuable placemaking case studies for shopping centre owners. He emphasises that park planners and designers meticulously craft every single element of their work to enable visitors to escape from their daily lives and become absorbed in the environment. By evoking the sights, smells and sounds that visitors encounter on their journey, retail real estate can ensure that centres are designed not only for function but also for aesthetics and atmosphere.

Trend or Fad?

Leisure is perceived to be more fickle than other spend categories; even retail is considered far less volatile as a category spend.[13] While still at the discretionary end of the spending spectrum, leisure is rising up the consumer priority list and becoming less vulnerable to economic headwinds.

One challenge for shopping centre landlords is distinguishing long-lasting entertainment concepts from fads, as this will inform whether an operator is best suited to a permanent or pop-up location. For instance, VR is operationally difficult and is essentially a novelty one-off individual experience that does not capitalise on consumers' desire for shared interaction, so landlords must assess how well operators can continually evolve the offer in order to encourage and sustain repeat business.

Beyond Sales Densities

Retail and leisure operators differ in their business models. Historically, retail performance has been based on sales per square foot. Although this is starting to change as the role of the store shifts away from transactions to brand awareness, engagement and driving sales across all channels, financial metrics remain critical. The entertainment industry, and particularly the attractions subsector, has a different approach. Naturally, operators must recoup their often high investment in developing

[10] Savills, 'Megatrends in European Leisure,' Issue 3, 2016, p.11.
[11] 'The Future of Leisure,' p. 28.
[12] White Hutchinson Leisure & Learning Group, 'The Future Ain't What It Used to Be – Cultural Shifts Continue to Affect the FEC/LBE Landscape,' March 2018.
[13] 'Retail News: Welcome to the Leisure Dome,' p.5.

and implementing the concept and therefore need to be profitable, by way of a combination of entry fees and secondary income from merchandise, food and drink etc. However, they are selling emotion, not products, and by focusing on enhancing the experience on offer, they are confident that if the qualitative metrics are positive then the quantitative metrics will follow.

In a successful entertainment attraction, the product on offer is the experience itself. Committing time to that experience must be rewarding and spending money on it must be worthwhile. In the experience economy, entertainment attractions must constantly reinvent themselves to encourage repeat visits and, ultimately, to survive. This economy is all about quality, service and choice, not about size or sales densities. As a result, feasibility studies for leisure and entertainment concepts are more complex than for retail or hotels and require specialist knowledge and experience, not only of the business models that they operate but also of the wider benefits that these operators can bring.

Leisure and entertainment operators may not necessarily produce huge sales densities for shopping centres; however, they drive footfall and extend dwell time, as well as boost sales at complementary tenants and create a diverse and vibrant environment. Retail real estate landlords are understandably risk-averse and concerned about maintaining a secure, stable income and the impact on valuation. But operators in the leisure and entertainment industry would argue for a new approach to rents and valuation that focuses less on covenant strength to ensure that these additional benefits of non-retail tenants are not undervalued and that the potential of independent and start-up operators is not overlooked.

Flexible and Affordable Leasing Terms

Retail real estate landlords increasingly realise that they need not simply the highest revenue-generating tenants or those that connect with local needs, but also a corresponding new approach to leasing terms that is customised to the occupier. ***Flexibility and a range of lease structures are required***, as no one size fits all. Some leisure and entertainment tenants want long leases due to high initial investment/fit-out costs, whilst others prefer shorter leases as a way to test the market.

Likewise, affordable rents are needed so that operators can make a profit. Upward-only rent reviews are also a significant barrier to the continuing success of leisure and entertainment occupiers, so leasing models based on turnover rent may be more appropriate and mutually beneficial in providing longer-term sustainability for both landlord and tenant. Given that leisure and entertainment occupiers are increasingly becoming shopping centre anchors, industry professionals are debating whether they should receive the rent and tenant concessions that have historically been given to traditional department store anchors in recognition of their impact on overall centre footfall and sales.

Thinking Outside the Box

Like retailers, leisure and entertainment operators prefer high-footfall locations. These occupiers can effectively repurpose retail vacancies, particularly large anchor units that were previously occupied by department stores. Large attractions do require high-density locations, but, for the most part, the optimal location is not solely driven by passing traffic, as secondary locations can work well too if they are easily accessible, technologically-enabled and visible throughout the centre, such as on interactive displays. This link with the wider shopping centre marketing effort can maximise the potential of entertainment operators, and cross promotions could benefit both retail and leisure tenants (e.g., spend x amount in the centre and receive a discount on the entry fee to a particular entertainment experience).

Retail real estate landlords should literally 'think outside the box,' as visitors do not necessarily need to go through an occupier's entrance to see or experience entertainment. Size is not everything when it comes to creating an enjoyable and memorable experience, and small initiatives, such as costumed actors interacting with centre visitors or live human statues that draw crowds, eagerly watching for any movement, can also be very effective. Shopping centre landlords could also consider a broader approach to entertainment and design their schemes using a unique theme, as seen at the Mercato Shopping Mall in Dubai, with its distinct architecture reminiscent of a Mediterranean town during the Italian Renaissance,

Facilitating Connections

Greater interaction should further the conversation and understanding between the two sectors. Retail real estate professionals should network with sector specialists and occupiers at events of the leisure and entertainment trade associations (and vice versa), such as the International Association of Amusement Parks and Attractions and Themed Entertainment Association, and national organisations including the UK-based Leisure Property Forum and Experience UK.

In order to better incorporate leisure and entertainment experience into Europe's shopping centres, ***landlords should study how the sector is developing in other global regions and learn from best practices***, particularly in the Middle East and Asia, which are arguably ahead of the curve in providing a high-quality consumer experience. However, whilst international knowledge and experience are beneficial, landlords should not overlook local operators that can provide authenticity to a centre and improve engagement with the community.

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