The Successful Integration of Food & Beverage Within Retail Real Estate

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Executive summary

The global retail and leisure landscape is undergoing **fundamental change**–lasting and structural, driven by macro demographic trends, technological advancements and ever-evolving consumer expectations. The combination of these trends and expectations is having a huge impact on both the retail and foodservice sectors globally, in terms of consumer spending patterns and space allocation. Across most countries, consumer spending on foodservice has been outpacing grocery spending (and indeed all retail spending) in recent years. Furthermore, as spend shifts from transactional to experiential food offers, food and beverage (F&B) is growing in importance to retail real estate. Implemented correctly, foodservice drives footfall, dwell time, spend and overall sales growth—the 'halo effect.' To be sure, more restaurants and bars do not necessarily equate to success for shopping centres, as this huge expansion in space allocation comes with opportunities (e.g., increased footfall and sales) but also risks (e.g., oversupply). But overall, F&B can now act as an anchor.

This paper explores the impact of foodservice growth on retail real estate, considerations and best practices for the successful integration of foodservice, and the future outlook.

What are the implications for real estate?

There are major issues and challenges that landlords need to consider when expanding, adapting or innovating their foodservice component. The biggest challenge for landlords is to understand how their support for restaurant operators differs from their responsibilities to traditional retailers.

There is a general consensus from landlords that, while there are clearly frontrunners and landlords who understand the requirements of foodservice operators, the industry remains at the beginning of a journey, and there are many lessons to be learned. Specifically, learnings for landlords when it comes to leasing, asset managing and valuing shopping centres include: rental levels; lease lengths; tenant mix; strategic approach; operations; and partnerships with foodservice operators.

How can this be achieved in practice?

There are outstanding best practice case studies from around the world that illustrate how foodservice can be successfully integrated within shopping centres of different sizes and formats. (Some of these case studies can be found in boxes throughout Chapters 3, 4 and 5 in this report*.) There is certainly no 'one-size fits all' optimum solution, but broad learnings can be taken from each 'exemplar of excellence.'

This paper sets forth how large destination shopping centres can benefit from creating a dining destination; how small neighbourhood shopping centres should focus on servicing the needs of the local population; how mixed-use schemes need to create destinational appeal; and how upgrades/redevelopments can transform a property through elemental change or the addition of new areas designated solely for restaurants.

*There are many examples of first-rate foodservice uses across the industry. Unfortunately, only a few could have been highlighted here.

What is the future outlook for the foodservice sector within shopping centres?

The exponential growth in quantity and quality of foodservice in shopping centres has had a broadly positive influence on the sector and gone a long way to providing the experience needed to meet changing consumer demands in the new world of retail and leisure. However, the industry is still at the beginning of a transformational journey. It is clear that food will be at the forefront of that change and will continue to play a crucial role in future-proofing retail places.

Understanding how technology is driving innovation and change in foodservice is imperative. Technology is improving operational efficiency and service; enabling 'hyper-personalised' experiences; creating game-changing online delivery services; and contributing to risks already facing the industry.

Conclusion

Navigating opportunity, identifying risks and challenges, and planning successfully for the future of foodservice within the shopping centre space requires careful consideration. An appropriate foodservice offer, combined with effective implementation, will reap rewards.

Landlords must know their own customer and community then customise the food offer accordingly; this is arguably far more important and complex for food than it is for retail. They must be aware of the trends shaping the food market, and ensure that offers remain fresh and vibrant. They must be alert to the current and future disruptions that might be caused by technology. They need to get much closer to operators, to understand their business models and requirements, and guide them on their shopping centre journeys. And finally they need to put steps in place to measure the benefits (both direct and indirect) that food brings to their centres – without evidence, how can improvements be made?

The future for the foodservice sector is bright, but as it grows up, so the need grows to apply greater rigour and science to planning and executing foodservice strategies.

Chapter 1
Introduction and framing the research

Macro trends leading to widespread structural change...

The global retail and leisure landscape is undergoing widespread structural change – change significant enough to require operational and strategic adjustments by some occupiers and investors, but ultimately, change that is enhancing customer experience, efficiency and convenience and that is rewarding entrepreneurs, the skilled and the brave.

The change is driven by macro demographic trends, including population growth, urbanisation and an expanding global middle class. The rise of technology is quickening the pace of change, and also leading to a 'power shift' towards the consumer at the expense of the occupier. Ever-evolving consumer expectations are also transforming the retail and leisure world. This report analyses the main trends that are reshaping the global retail and leisure market, and how physical space needs to respond to these macro trends, to remain resilient and future-proofed.[1]

Trend 1: Demographic change – strengthening cities

The staggering rate of global population growth and urbanisation is underpinning radical change. The United Nations Population Division predicts that the global population will keep rising until the year 2050, when it will reach 9 billion.

Urbanisation is not a new phenomenon; for centuries people have flocked to centres of commerce. What is striking about urbanisation today, however, is its sheer scope and pace. The current urban population is 3,9 billion, or 54% of the world population of 7,4 billion. The urban population size in 2050 will be 6,3 billion, or 70% or the total population, as estimated by Ernst and Young, a rise in the urban population of 2,4 billion!

Closely linked to the urbanisation trend is the growth of the middle class, which is now the dominant income segment globally. The middle class is predicted to increase from 1,8 billion in 2009 to 3,2 billion by 2020, and to number 4,9 billion (out of a projected global population of 8,3 billion) by 2030, according to the Brookings Institution.[2] While most of this phenomenal gain will occur in the developing world, and in China and India in particular, every region will contribute to this trend (the exception being the United States, where the middle class is actually shrinking). The middle class is also becoming richer, better educated and more technologically connected.

Trend 2: Digital Age and omni-channel retailing

Today, 3,5 billion people have access to the internet, according to the International Telecommunication Union (ITU).[3] Most users are younger than 30 years old, have short attention spans, and are characterised by a lack of brand loyalty. While smartphones and tablets are currently at the forefront of Internet access technology (there are more than 2 billion smartphones now in use worldwide, which is forecast to rise to 2,9 billion by 2020, according to eMarketer[4]), new technology is continuing to emerge, and will drive Internet usage still further.

While e-commerce is already a global phenomenon, there are significant regional and national nuances. Consumer behaviour varies by country and by region; South Korea, the U.K. and the U.S. have highly-developed online markets, but some developed markets, even mainstream Western European nations, are seeing slower online take-up.

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[1] This report resulted from JLL's 'Redefining Retail Places' initiative;http://www.jll.com/services/industries/retail/retail-redefining-retail-places.

[2] See Homi Kharas and Geoffrey Gertz, 'The New Global Middle Class: A Cross-Over from West to East,' in *China's Emerging Middle Class: Beyond Economic Transformation*, edited by Cheng Li (Washington, DC: Brookings Institution Press, 2010), Table 1. (The Brookings Institution is a U.S. research and policy think-tank based in Washington, D.C.)

[3] 'ITU Releases 2016 ICT Figures,' ITU (July 22, 2016 press release). ITU is an agency of the United Nations (UN) whose purpose is to coordinate telecommunication operations and services throughout the world.

[4] 'Worldwide Internet and Mobile Users – eMarketer Updated Estimates and Forecast for 2015-2020.' (eMarketer is a leading digital research and marketing company based in New York.)

Despite these regional variances, one constant remains: consumers now are demanding more than ever before from their retail and leisure experience, and expect to have a choice of channels through which to transact and interact. They are demanding a seamless omni-channel experience: ordering online with pick-up in store, or vice versa, ordering via smartphones or through social media sites. In retail places, foodservice has started to play a fundamental role in meeting these increasing visitor expectations.

Trend 3: Experience Economy

Perhaps the most important macro trend relates to time and the 'experience economy.' For an increasing amount of consumers, time is a more precious commodity than 'stuff.' 'Peak Stuff,' a notion now spreading through the Western world, effectively means that owning 'things' is no longer a necessity. And the 'things' people do own, they would rather use to full capacity rather than constantly replacing. According to psychology journals[5] that have discussed this concept, human beings are no longer happy with just material things. They would rather live through memorable experiences that they can share.

This trend is particularly evident amongst the millennial generation, who desire to spend money on experiences that enhance their lives. A recent study by the New York-based market research firm YPulse, for instance, found that '61% of millennials ages 21-24 would rather have dinner at a new restaurant than buy a new pair of shoes.'[6] But it is not just millennials; consumers across the generations are realising that experiences often make you happier and are equally as valuable as buying 'things.' This is leading to, amongst other things, an inexorable growth in demand for experiential and destination retailing. Places increasingly need to be destinations in their own right and offer an experience beyond pure retailing to compete for the consumer's precious time.

Spend is shifting from transactional to experiential food offers.

The foodservice sector comes of age…

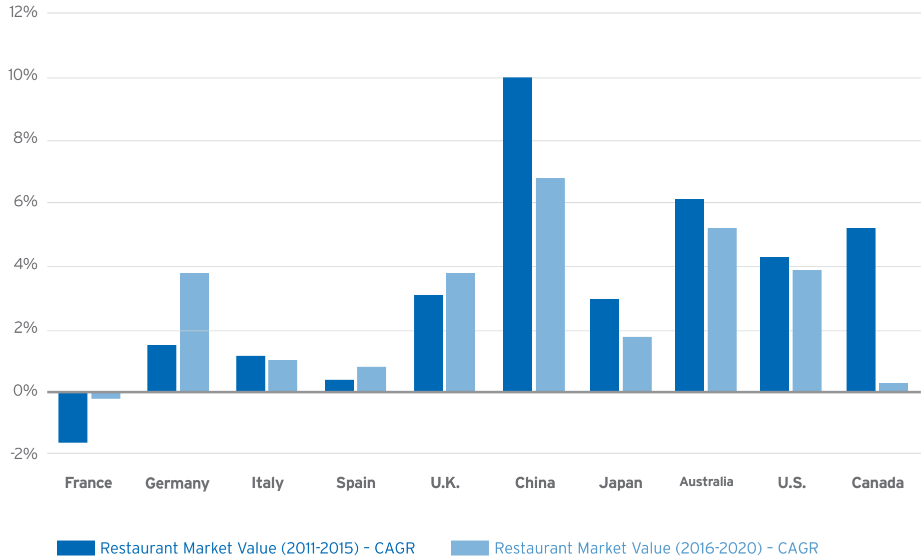
The combination of these macro trends and ever-evolving consumer expectations is having a huge impact on both the retail and the foodservice sectors globally, in terms of consumer spending patterns and space allocation to foodservice. Across most countries, consumer spending on foodservice has been outpacing in-home food and grocery spending (and indeed all retail spending) in recent years. (Forecasts for future restaurant spend vary by geography, as seen in Chart 1.) In the United States, sales at restaurants and bars overtook spending at grocery stores for the first time in March 2016. The swing in Europe is not so pronounced as yet, but it is certainly moving in the same direction. At the same time, spend is also shifting from transactional to experiential food offers.

Benefits to shopping centres well documented…

And landlords are certainly taking note; the foodservice market within retail generally, and in shopping centres in particular, has undergone a remarkable transformation in the recent past, not only in terms of the size of the sector but also the diversity and quality of offer. Well-configured and complementary dining and socialising provision is one of the most effective ways of incorporating diversity and vitality into shopping centres worldwide. A vibrant and evolving foodservice offer can differentiate retail spaces, and as part of an integrated, broader leisure offer, can help meet the ever-changing consumer demand and expectation for experience. This in turn can boost

[5] See, for instance, Leaf Van Boven and Thomas Gilovich, 'To Do or to Have? That Is the Question,' *Journal of Personality and Social Psychology*, 2003 (Vol. 85, no.6.)
[6] MaryLeigh Bliss, 'Is Food The New Status Symbol?' *Engage: GenY MediaPost*, Oct. 10, 2014.

Chart 1. **Restaurant Market: Historic and Forecast Growth**



Note: CAGR=Compound Annual Growth Rate

Source: Mintel

dwell time and overall scheme attraction and sales (the 'halo effect'), as well as provide consumers with a reason to keep coming back.

The benefits of a strong foodservice offering are well documented in existing studies:

- **CACI, 'For Whom the Dwell Tolls':** 'While Hemingway's book 'For Whom the Bell Tolls' depicted the brutality of war, there is a new war in the retail landscape for consumers' money – and it's being waged through increasing dwell times. The 'stay longer, spend longer' trend is shaping the market and the role of food and beverage in this battle is significant.'
- **Fung Global Retail and Technology, 'Deep Dive Foodservice & Shopping':** 'Consumer spending on foodservice is growing faster than consumer spending on food and beverage retail in the U.S., the U.K. and Germany. The share of shopping center units dedicated to foodservice is higher in new malls than in older malls, and that share is expected to increase significantly in coming years. The growing presence of foodservice offerings in shopping centers could contribute to increased footfall, higher dwell time and greater spending.'
- **ECE, 'Destination Food,' a study of ECE's German shopping centre portfolio:** 'Restaurants and food courts have been an important trend at the centers for a while. The study has shown that 40% of visitors base their choice of shopping center primarily on the available dining options – and not on the variety of other stores. 60% of those surveyed eat at the center nearly every time they visit.'
- **JP Morgan Cazenove, 'Dining Out on European Retail':** 'As shopping centres face structural change and move more towards the showcasing of products, given that Internet retailing is expected to continue to capture an increasing proportion of retail sales, the experience in a shopping centre must extend beyond 'shopping,' in our view. Developers are tackling this via a 'destination' leisure offering, i.e. restaurants and cinemas, to attract footfall.'
- **ICSC Consumer Surveys:** A survey conducted in March 2017 in the U.S. shows that 66% of mall visitors say the F&B offer is important to them when choosing a center to visit. About 55% of mall visitors visit these establishments when they go to malls.

Compared with five years earlier, 34% of mall visitors who eat/drink there say that the amount of money spent per visit on F&B increased; 44%, that the amount has stayed the same; and the balance (22%), that it decreased. Another survey highlighted that full-service restaurant gift cards remained the most popular cards received during the 2016 holiday season—demonstrating how important this sector is at any given point of the year.

Huge growth in foodservice space in shopping centres...

> The amount of space typically dedicated to food within existing schemes has grown from 5% a decade ago, to 10-15% now in some European markets (in the U.S. this can be slightly lower, averaging 8-9%), but is forecast to reach 20% of total space in some of these markets by 2025.

The amount of space dedicated to the foodservice sector across the global retail landscape is clearly increasing each year, as the growth in online sales continues apace. As demand for traditional merchandise space abates, demand for foodservice space appears insatiable. The amount of space typically dedicated to food within existing schemes has grown from 5% a decade ago, to 10-15% now in some European markets (in the U.S. this can be slightly lower, averaging 8-9%), but is forecast to reach 20% of total space in some of these markets by 2025, according to JLL. New destination schemes in these markets typically have up to 25% allocated to food.

The quantum of foodservice space varies greatly by market and region, and is driven by macro factors such as market maturity, the position on the 'development curve' and cultural nuances, and micro factors such as the strength of foodservice competition in a market. In Asia, for example, the natural evolution of foodservice space within shopping centres has effectively been bypassed, with the development of 'mega malls' often with up to 30% of space dedicated to foodservice. This is partly in response to the strong eating-out culture in most Asian markets, and also the lack of alternative offer. Extreme cases exceed 40% or more, as Asian customers seek to entertain family and friends in restaurants outside the home environment and spend most of their day at a centre.

...but expansion not without risks and challenges

However, more foodservice space does not necessarily equate to success. The sector is going through a period of exciting and rapid growth, but this is unlikely to last forever. Growth masks imperfections; it is when the market turns that these imperfections are exposed and amplified, and poorly conceived or executed foodservice strategies come to light. Despite huge opportunity, the future for foodservice needs careful consideration; evolution and growth comes with challenge and risk, to restaurateurs and investors alike. As the British Council of Shopping Centres (now known as Revo) noted in its report, 'Food and Beverage: A Solution for Shopping Centres?'; 'There is evidence to suggest that adding foodservice without a coherent strategy can lead to a less than optimal overall offer that, rather than being supportive of retail, can distract consumers and reduce the amount of time spent shopping overall.'

The ultimate challenge for landlords is to persuade visitors to return (and return again), which means harnessing new foodservice trends, designs, emerging cuisines, and pursuing an inventive edge. Trends range from the integration of digital into the dining offer, to the demand for local and artisan foods, to the rise in highly personalised and innovative dining experiences. There is also a need to comprehend foodservice operational nuances like never before, and to appreciate the clear segmentation in what is becoming an increasingly diverse and sophisticated sector, from 'speed eating' to 'finer dining.'

Choosing the right menu...

The retail and leisure industry clearly requires guidance and research to navigate opportunity, to quantify the current and likely future contribution made by foodservice to the retail landscape, and to plan successfully for the future. This report adopts both a qualitative and quantitative approach to this research piece, and included views and insights from the full spectrum of global stakeholders within the industry, from the occupier to the investor. As such, this study provides a holistic, 360-degree view of the current landscape, challenges, risks, opportunities and future outlook for foodservice within the shopping centre space. Specifically, the following questions will be addressed:

- How do the business models of foodservice operators differ from retailers within shopping centres?
- How can we segment the foodservice market, and which are the growing sectors and innovative concepts?
- What are the direct and indirect benefits of foodservice to retail places and shopping centres? Can these benefits be quantified/benchmarked?
- What are the key drivers of performance for foodservice operators and landlords?
- What impact is the huge growth in foodservice space having on the leasing, valuation, investment and asset management of our shopping centres?
- What are the major risks and challenges to further growth in foodservice within shopping centres?
- Where are the best-in-class examples in foodservice within shopping centres globally? What can be learned from these places?
- And what does the future of foodservice within shopping centres look like?

Chapter 2
How do the business models of foodservice operators differ from retailers within shopping centres?

Landlords can no longer treat foodservice as an offshoot of retail.

Introduction

Foodservice and retail business models differ fundamentally. It is physically impossible to eat all day long and, while the development of 'grazing' means that we are no longer restricted to eating 'three square meals per day,' there is a finite amount that any individual can eat in one sitting, whereas shopping can take place in multiple retail outlets over a prolonged time period and is only constrained by spend power, or consumers' desire to spend.

The global growth of foodservice within shopping centres requires the industry to gain a much deeper comprehension of foodservice occupier business models. Landlords need to understand what operators will do for their customers, what they sell, when they sell it and how much they sell it for – for instance, are they an AD/ED (all day/every day) operator, or do they mainly generate evening trade? This was a recurring theme that arose from the occupier interviews undertaken during the study: landlords can no longer treat foodservice as an offshoot of retail. But where do the main differences lie, and are all foodservice operator business models the same?

Sophisticated industry requires better segmentation

As the global foodservice industry evolves and matures, there is a need for a more sophisticated approach to segmenting the market into foodservice categories. It is no longer enough to talk about fast food, quick service and sit-down restaurants. Therefore, this report has developed a comprehensive foodservice categorisation model that incorporates concepts from 'coffee and cake' to 'impulse' to 'gourmet food' operators. Each has distinct trading periods, dwell times and catchment (or trade area) characteristics, as well as location and technical requirements.

The eight foodservice categories are introduced in Table 1 below, with a description of the characteristics of each, and sample operators by region.

The complicating factor is that many operators no longer fit neatly into one foodservice category. A growing number of crossover operators may even change categories during the day. Landlord demand for ever more rental revenue has effectively created these hybrid operators, who drive additional revenue through all-day selling. It is a positive for the industry in terms of creativity and innovation, but it does put the burden on landlords to fully understand their business models.

Trading periods and dwell time

For restaurant operators, a standalone site may provide more control over identity and branding, plus easier parking, better access for visitors and better signage. However, a shopping centre location does provide a restaurant operator with numerous benefits, which will often outweigh those associated with standalone sites. The principal benefit is the complementary uses found in a shopping centre that drive additional traffic to that location. The activity and footfall generated by the other tenants keeps restaurants busier, and for a longer period of time. In particular, restaurants in shopping centres attract more diners during the traditional 'dead periods' between meals, and trading periods can extend later into the evening than they would at a standalone location.

Table 1. Foodservice Categorisation Model

Foodservice Category	Characteristics	Sample Operators		
		Europe	Asia Pacific	U.S./Canada
Impulse (Sweet Treats)	• 'Treat' purchases, often handheld • Consumption on the move • Includes items such as ice cream and juices	Boost Juice Mr Clou Krispy Kreme	Remicone Honeymoon Dessert I Juice	Auntie Anne's Jamba Juice Cold Stone Creamery Cinnabon
Refuel and Relax (Coffee and Cake)	• The focus for user and unit is on beverages • Foodservice is a supporting offer • Used for a short break or pit stop	Costa Balzac Joe & the Juice	Caffe Bene 85 Degrees Pacific Coffee	Starbucks Tim Hortons DAVIDs TEA
Speed Eating (Fast Food)	• Food that is purchased & consumed quickly • Includes International brands and items like fresh salads and homemade soups	McDonald's Subway Nordsee	Yoshinoya Zhen Gongfu Yonghe King	Wendy's KFC Subway
Fast-Casual	• Food is often made or finished to order • Guests are involved in the service process - full table service is not provided	Vapiano Jim Block Leon	Ajisen Ramen Tai Hing Saizeriya	Five Guys Panera Bread Chipotle
Casual Dining	• The widest category, with infinite cuisines. • Table service • Environments are as important as the food	Jamie's Italian Block House L'Osteria	The Grandma's Toast Box Cafe de Coral	Cheesecake Factory Chili's Olive Garden Swiss Chalet
Finer Dining	• The highest level of foodservice • Sophisticated experience • High price, better service and longer dwell times	Gaucho Coast Le Canard	Din Tai Fung South Beauty Tang Palace	Morton's Steakhouse Capital Grille The Oceanaire Milestones
Social Drinking	• Alcohol-led units, but not just about alcohol • Food menu is important • Places of social interaction	O'Leary's All Bar One Hofbrauhaus	None	Gordon Biersch BJ's Restaurant & Brewhouse
Gourmet Food	• Mainly retail food to buy to take away • Can include an element of food to eat-in	Godiva Mymuesli Schlemmermeyer	Vimiu Tang Bing Jia Shen Da Cheng	See's Candies Dean & Deluca Purdy's Chocolatier

Source: JLL

Note: Tenants are listed solely for illustrative purposes and do not imply any endorsement.

Table 2. **Key Indicators by Foodservice Category**

Foodservice Category	Typical Trading Periods	Typical Purchase	Typical Dwell Time
Impulse (Sweet Treats)	All day - anytime	Single item of core product	Takeaway/takeout
Refuel and Relax (Coffee and Cake)	Breakfast, and snack times	1 regular coffee, and a pastry/bagel	Can be takeaway or 1 hour, on average 20 minutes
Speed Eating (Fast Food)	Lunch, dinner, rarely snack times	Meal deal including side and drink	10 - 20 minutes
Fast-Casual	Mostly lunch and dinner	Meal deal including side and drink	15 - 30 minutes
Casual Dining	Mostly lunch and dinner	2-course meal with or without alcohol	30 - 60 minutes
Finer Dining	Lunch and dinner	2- or 3-course meal often with alcohol	60 - 180 minutes
Social Drinking	Mostly dinner and evening snack	Drink and snack or meal	60 - 90 minutes
Gourmet Food	All day - daytime	Artisan food products	10 - 15 minutes

Source: JLL

'The main difference between trading in a shopping centre and a non-shopping centre location is that there is a captive market in a shopping centre, so performance is more predictable.'

As Vincent Healy, Acquisitions Director at Busaba Eathai, commented, 'The main difference between trading in a shopping centre and a non-shopping centre location is that there is a captive market in a shopping centre, so performance is more predictable. You know if you served 20 000 covers this year you are guaranteed 21 000 next year. The opening hours are also different and the customer mindset is affected by the fact that they have been shopping already, they are in the mood to spend money and they want to be rewarded and refreshed.'

Typical trading periods vary according to foodservice category, from all day for 'impulse' and 'gourmet foods' to mainly lunch and dinner dining for the 'finer dining' category. The typical trading periods of each foodservice category are outlined in Table 2, together with a typical purchase basket and average dwell time by category.

Catchment characteristics

As with retailers, the surrounding catchment and infrastructure are important determinants for foodservice operators when defining their location strategies. The attractiveness of a shopping centre to each foodservice category will vary and depend on the specific local catchment and shopper characteristics. If a shopping centre is surrounded mainly by offices, for instance, then the dominant foodservice demand period will be on weekday lunchtime; 'refuel and relax' and 'Fast-Casual' operators operate best in these environments. If, on the other hand, the centre is located in a high-footfall transit location, then 'speed eating' and 'impulse' offers will be the categories that benefit from the strongest demand. This may lead to operators flexing their trading profile to better suit the footfall demands. For example, Starbucks kiosks in transit locations essentially feature a 'refuel and relax'-style coffee offer, but from an impulse unit. Typical catchment/shopper characteristics for each foodservice category are outlined in Table 3.

The quality of the footfall, existing leisure offer within the shopping centre and within the immediate local catchment also play important roles in determining demand for both foodservice in general and by category. A shopping centre located in an area without any existing 'evening economy,' or which does not have any leisure within the centre (e.g. a

Table 3. **Catchment/Shopper Characteristics by Foodservice Category**

Foodservice Category	Typical Catchment/Shopper Characteristics
Impulse (Sweet Treats)	Anyone passing the unit but predominantly retail visitors, often younger and female
Refuel and Relax (Coffee and Cake)	Retail users as a pit stop, office workers as a meeting space, commuters on their way to work
Speed Eating (Fast Food)	Office workers, manual workers, families, less affluent retail visitors
Fast-Casual	Office workers, young adults, foodies, hipsters, more affluent retail visitors
Casual Dining	More affluent retail visitors, Dual Income, No Kids (DINKs), empty nesters, family special occasions
Finer Dining	Destination diners, corporate lunchers, special occasion users
Social Drinking	Post workers, ladies who lunch, DINKs, young socialisers, special occasion groups, young adults, leisure users
Gourmet Food	Retail browsers, foodies, destination retailers, office workers

Source: JLL

cinema or a bowling alley), would be much less attractive to 'casual dining' operators, for instance, as about 70% of these operators' trade typically occurs during the evening.

As one restaurant operator commented, 'Leisure offers are very important. They create a destination. With somewhere like a Westfield it makes the decision for the customer and removes a barrier in terms of deciding where to go, how to book etc. They know there are a lot of options there and that they can go along and find something.'

Location within centre

Ideally, 20% of foodservice space should be dispersed across the centre and include 'refuel and relax' and 'impulse' offers, with the remaining 80% clustered together and focusing on 'speed eating,' 'fast-casual,' 'casual dining' or a combination of each.

Foodservice operators' location strategy concerns extend to the specific placement of a unit within the shopping centre. There are two fundamental issues to consider: firstly the quantity of the surrounding food offer and, secondly, the type and category of this foodservice offer.

On one hand, the 'clustering' of foodservice is important and can be beneficial for some operators; the issue of creating critical mass is central here. For example, 'casual dining' units would typically want to be located next to other 'casual dining' restaurants. On the other hand, too much cuisine or product duplication (burgers next to burgers, for example) within the same area of a shopping centre, can have a 'cannibalising' effect on the weaker operators. Each foodservice category has a typical optimal location within the shopping centre, which is summarised in Table 4.

Foodservice space allocation depends on such factors as shopping centre size, existing offer and centre configuration. But ideally, 20% of foodservice space should be dispersed across the centre and include 'refuel and relax' and 'impulse' offers, with the remaining 80% clustered together and focusing on 'speed eating', 'fast-casual', 'casual dining' or a combination of each. This strategy has the effect of maintaining one or more central eating hub(s), which benefit from a critical mass of operators, and where people go specifically to eat, but also captures the unplanned refuelling of retail visitors in predominantly retail spaces. The strategic positioning of 'flagship food operators' at entry and exit points can also draw in additional footfall, as well as keep existing customers in the centre.

Unit size and seating

In addition to optimal location requirements within a shopping centre, each foodservice category also has a typical unit size that best supports the operator to make it financially successful. These sizes are summarised in Table 5.

While these provide a guide, a variety of factors will impact the size of a foodservice unit. Sizes already vary significantly from location to location; as mentioned previously, brands are increasingly 'flexing' their product offer, particularly in transit locations. In the U.K., TGI Fridays and Café Rouge both have express versions of established 'casual dining'

Table 4. Optimal Shopping Centre Location by Foodservice Category

Foodservice Category	Optimal Location
Impulse (Sweet Treats)	Key mall intersections and high footfall malls. Inside spaces preferred
Refuel and Relax (Coffee and Cake)	Retail mall, not clustered, with mall seating or ideally external seating
Speed Eating (Fast Food)	Clustered in a food destination (food court), outside space a bonus, not required
Fast-Casual	Clustered in a food destination, outside space a bonus, not required—could be part of casual dining cluster
Casual Dining	Clustered in a food destination, outside space highly desired and ability to trade outside retail hours is a must
Finer Dining	Standalone units, no need to be clustered, destinational and desirable locations
Social Drinking	Clustered in a food / drink destination, outside space required
Gourmet Food	In-line retail on the mall, does not need to be clustered but can work in a gourmet food cluster/destination

Source: JLL

Table 5. Optimal Unit Size by Foodservice Category

Foodservice Category	Optimal Unit Size (sq m)
Impulse (Sweet Treats)	20 - 30
Refuel and Relax (Coffee and Cake)	150 - 250
Speed Eating (Fast Food)	200 - 400
Fast-Casual	200 - 400
Casual Dining	300 - 600
Finer Dining	400+
Social Drinking	350 + (with food)
Gourmet Food	50 - 150

Source: JLL

offers in transit locations. In the U.S., operators such as Panda Express can function in food court kiosks, roadside drive-thru style units and also in more traditional 'casual dining' spaces, depending on the requirements of the footfall, landlord and tenant.

Another variable that affects unit size is the irregularity of footfall. For example, in centres adjacent to event venues or stadiums, larger spaces are often desired, such as at Splau in Barcelona, Mall of Scandinavia in Stockholm and the London Designer Outlet at Wembley. Larger spaces help operators to maximise the revenue that can be generated on an event day where there is a large influx of footfall in a finite time frame. Designing this additional space to be delivered through extensions into cheaper basement, first floor or mezzanine spaces can be a particularly attractive way of delivering best value in these spaces.

As well as providing seating inside the units, foodservice operators often prefer to offer mall and external seating to their customers. Aside from the obvious seating capacity increases, these seating environments ensure better visibility of the offer from a distance and they also provide something of an identity for the unit and the seating area. In Singapore, it is common for mall restaurants to draw customers with seating visible from the common areas and, in many cases, the kitchen itself is visible from the common area. Customer habits also have to be accommodated; in Indonesia, for example, it is increasingly common for restaurants to be clustered in a dedicated area of the mall that has split indoor and outdoor seating areas with ample ventilation to accommodate smoking.

Food courts within shopping centres are typically operated by multiple independent operators, as opposed to a single operator model. This allows for the best flexibility in terms of replacing poorly performing operators and the increased competition ensures that the operators are striving to provide the best service/product quality as possible.

Number and type of units

While unusual for retailers within a shopping centre environment, foodservice operators often sell from short-term 'pop-up' units around and outside the shopping centre. As well as the more traditional kiosk counters, some of the more innovative concepts include sea containers, food trucks and even 'beach huts.'

While retailers would typically have only one unit per shopping centre, for certain types of foodservice operators, it is not unusual to have two, or more units, especially 'impulse' units, within the same centre. The units under this category tend to be 'satellite units' where the central production facilities are located off the premises in a central kitchen or in a larger (mother) unit in the centre. The ready-made products are then transported to the satellite for selling and consumption. This operational model allows for fixed cost savings for the operator, as this minimises the space required within the shopping centre. Examples of international operators who often use this model are: Krispy Kreme, Starbucks and McDonald's.

While unusual for retailers within a shopping centre environment, foodservice operators often sell from short-term 'pop-up' units around and outside the shopping centre. As well as the more traditional kiosk counters, some of the more innovative concepts include sea containers, food trucks and even 'beach huts.' These units allow new and less established operators to display their product without committing to a long-term lease agreement. The typical lease length of a 'pop-up' unit is 3-6 months. The pop-ups also allow shopping centre landlords to create short-term additional capacity for foodservice in seasonal peaks.

In-store foodservice concessions within traditional retailers are also becoming more popular within shopping centres. The benefits of this model to the retailer are clear: increased sales density, and creating a real point of differentiation, which will draw people into the store. Many larger retailers are taking advantage of this trend to recycle redundant floorspace in oversized units. The foodservice operator benefits from a reduced fit-out investment (shared toilets with the retailer, for example), ready footfall,

reduced rent, and a captive audience within the retail unit, with no direct competition within the retail unit. Factors for consideration for in-house foodservice concessions include:

- visibility of the offer from the retail mall – drives footfall into the unit
- 'fit' between the retailer and the foodservice operator – a luxury retailer needs a foodservice operator that complements its offer
- containing possible odour pollution.

Technical requirements

One of the principal differences between retailers and foodservice operators concerns the technical requirements that each need to operate within a shopping centre environment. As well as needing the standard provision for water, electricity, fire exits and toilet facilities (as would some larger retail units too), foodservice units have specific technical requirements. These include:

- grease traps
- cooking equipment, including ovens and hobs
- sufficient extraction (dependent on unit/kitchen size)
- cold and ambient storage
- waste disposal options for different waste types (food, glass, plastic and paper)
- numerous daily delivery and refuse collections.

The technical requirements also differ substantially according to the foodservice category, highlighted in Table 6.

Table 6. Technical Requirements by Foodservice Category

Foodservice Category	Indicative Technical Requirements
Impulse (Sweet Treats)	• Counter service • Can require very little preparation or back of house (BOH) space (unless production unit) • Little extraction required (unless production unit) • Small number of staff so few staff facilities required • Gas not required in typical unit but supply of water needed • No walk-in refrigeration typically required but good amount of dry storage is useful
Refuel and Relax (Coffee and Cake)	• Counter service • Can require very little preparation or BOH space (unless production unit) • Little extraction required (unless production unit) • Small number of staff so few staff facilities required • Gas not required in typical unit but good supply of water needed • Walk-in refrigeration not typically required but good amount of dry storage is useful
Speed Eating (Fast Food)	• Counter service • Preparation space can be limited but large batch cooking and hot holding areas will be required • Can require maximum extraction allowed due to typically greasy nature of food • Good service access from gas, water and electricity required • Walk-in refrigeration is required both fridge and freezer
Fast-Casual	• Counter service • BOH required in terms of staff areas, multiple storage space (including chilled drink and wine/spirit) and office for management • Preparation space can be limited but large batch cooking and hot holding areas will be required • Can require maximum extraction allowed due to typically greasy nature of food • Good service access from gas, water and electricity required • Walk-in refrigeration is required in terms of fridge space. Large amount of freezer space is useful but not essential
Casual Dining	• Typically table service • Preparation space can be limited depending upon branded/independent nature of operator • A good sized cooking and reheating space will be required • Can require maximum extraction allowed due to potentially greasy nature of food • Good service access from gas, water and electricity required • Walk-in refrigeration is required in terms of fridge space. Large amount of freezer space is useful but not essential
Finer Dining	• Typically table service • BOH required in terms of staff areas, multiple storage space (including chilled drink and wine/spirit) and offices for chefs and management • Preparation space is required as almost all food will be produced on site • A large well-equipped kitchen is required • Can require maximum extraction allowed due to potentially greasy nature of food • Good service access from gas, water and electricity required • Walk-in refrigeration is required in terms of fridge and freezer space. Frequently dedicated storage space for fish, meat, vegetables, bakery and pastry
Social Drinking	• Counter service • BOH required in terms of staff areas, multiple storage space (including chilled drink and wine/spirit) and office for management • Preparation space can be limited but large batch cooking and hot holding areas will be required • Can require maximum extraction allowed due to typically greasy nature of food • Good service access from gas, water and electricity required • Walk-in refrigeration is required in terms of fridge space. Large amount of freezer space is useful but not essential
Gourmet Food	• Counter service • Can require very little preparation or BOH space (unless production unit) • Little extraction required (unless production unit) • Small number of staff so few staff facilities required • Gas not required in typical unit but supply of water needed • No walk-in refrigeration typically required but good amount of dry storage is useful

Source: JLL

Fit-out costs

As a result of the contrasting technical requirements, converting existing retail space to restaurant use often requires technical, physical and/or structural changes to the space, including kitchen build-outs and additional requirements for utility and ventilation systems. These costs can range from slight to significant, depending on both the scale of the structural change and the contribution of the incoming tenant, but the capital expenditure for foodservice operators opening a new outlet is generally high compared with traditional retail. Although many tenants may assume the majority of the build-out, landlords must be prepared to contribute significant amounts when seeking to attract highly desired tenants. Also to be considered is the disruption to existing retailers within the centre, for example by routing extraction through upper floors to the roof, and disrupting upper floor retail units.

The initial fit-out investment depends on the foodservice category. Cafes generally have a lower initial shop fit cost than food court units or restaurants because of the lower levels of cooking in-store and therefore the lower levels of extraction and ventilation required. At the other end of the scale, high-end 'finer dining' restaurants have a much higher initial investment given the quality of the fit-out required to operate at this end of the market. The typical fit-out costs are summarised in Table 7.[7]

Table 7. Fit-Out Costs by Foodservice Category

Foodservice Category	Typical Fit-out Costs (€/sq m)
Impulse (Sweet Treats)	€1 250 - €2 500
Refuel and Relax (Coffee and Cake)	€1 900 - €3 100
Speed Eating (Fast Food)	€2 500 - €7 500
Fast-Casual	€2 500 - €7 500
Casual Dining	€2 500 - €3 700
Finer Dining	€5 000+
Social Drinking	€1 900 - €2 500
Gourmet Food	€1 000 - €1 500

Source: JLL

[7] All currency conversions throughout this article have been made using currency exchange rates as of 8 March 2017. This may distort some of the data, due to recent extreme movements in some rates.

While there are variances by foodservice category, in general terms foodservice companies want to depreciate their investment over a longer period of time than traditional retailers; this can extend to 10 years for 'finer dining' concepts. On average, however, operators are looking at a three-year payback period over which the initial fit-out investment is depreciated. Years three to seven are then the prime profit-making period; traditionally after seven years, there is often the requirement for a new round of investment to 'refresh' the unit, although this refresh is typically occurring earlier, often at five years, as the market is increasingly competitive. However, this investment will not be as significant as the initial fit-out cost.

There are regional nuances here; in China, for instance, short-term horizons are common for non-chain operators, and an interior fit-out is not intended to last more than a couple of years. During this period there is a 'race' to earn profit as quickly as possible during a short window. This means there is the risk that in order to achieve a prime 'profit period,' ingredients are substituted, and corners are cut until the restaurant runs its course and ultimately is replaced.

Another point to consider, of course, is the complexity of the fit-out. If the landlord is asking operators to create a 'better than average' shop fit, then the cost is naturally going to rise. Southeast Asian markets, for instance, are witnessing the rise of the 'Instagrammable' store, which uses talented, artistic design as the top selling point, and which is designed to be photogenic and be shared virally online. The quality of the food itself within these restaurants is a secondary consideration. By contrast, new local restaurant operators in the U.S. are often taking a more minimal approach to the design of the restaurants, and really just focusing on the quality of the food and drink. For these operators the food and drink represent the entertainment, not the interior design; however, this approach naturally leads to a lower average spend as the consumer perceives quality through the environment just as much as the food served.

Barriers outweighed by benefits

On balance, the benefits of shopping centre representation outweigh barriers to entry for most operators.

For foodservice operators, there are undoubtedly barriers to entry and viable reasons against opening shopping centre units (and some have a strategy of shopping centre avoidance). Higher fit-out costs and rental levels (in comparison to alternative locations) in some markets, plus additional costs such as service charges, can make the cost of occupation prohibitive in some shopping centre locations.

The other key barrier to entry for foodservice operators is the configuration and opening hours of the shopping centre. This is particularly relevant for 'fast-casual' and 'casual dining' operators, which make roughly half of their revenues after 5pm. Therefore, a unit in a daytime trading centre must have the ability to trade externally from the shopping centre in order to allow the operators to maximise their revenues from evening trade. Meanwhile, coffee shops with public access from outside the centre can potentially stay open until the early morning hours.

However, on balance, the benefits of shopping centre representation outweigh these barriers for most operators. Restaurants trading in shopping centres benefit from extended trading periods (a long(er) Christmas season, for instance), and above all, from the lifeblood of all retail and leisure operators, footfall and a socially conducive environment. As David Fox, co-founder of Tampopo commented, 'What we get in shopping centres is simple: footfall, footfall and footfall, plus quality of footfall.' And for landlords, as seen later in this study, an appropriate, right-sized and diverse foodservice offering can make the difference between success and failure.

Chapter 3
What are the implications for real estate?

1 Introduction

This section of the report highlights the fundamental issues and challenges that landlords need to consider when expanding, adapting or innovating their foodservice component, and offers practical guidance and global best-practice examples with regard to the leasing, asset management and valuation of and investment in shopping centres.

The biggest challenge for landlords is to understand how their support for restaurant operators differs from their responsibilities to traditional retailers.

Landlord response has been mixed so far...

It is fair to say that the landlord response to the huge growth in foodservice provision within shopping centres has been mixed. As one operator commented, 'The response varies by landlord – some are very good and really understand foodservice, others less so.'

The biggest challenge for landlords is to understand how their support for restaurant operators differs from their responsibilities to traditional retailers. For one, there is far more risk attached to a restaurant operator opening in a shopping centre than a fashion retailer, due to the amount of capital expenditure, the training, the hiring, etc. The foodservice market is also much more fragmented than the retail market, so landlords are far more likely to be dealing with small operators than with large 'corporates.' So the responsibility is on landlords to render the best possible support, whether it be strategically, operationally, architecturally or financially.

As Klaus Rethmeier, Director of Leasing, Key Account Management International at ECE, commented, 'We aim to provide support for foodservice tenants in anything they need. We employ two architects specifically to help local foodservice operators, with the design of food courts, what the customer journey looks like, how to best benefit from footfall. Plus we provide benchmarks – we can tell an operator what densities a burger operator could achieve in an ECE centre.'

...but there is a willingness to learn and to respond to change

There was a general consensus from interviews conducted for this report that, while there are clearly frontrunners, and landlords who understand the requirements of foodservice operators, the industry remains at the beginning of a journey. As one landlord commented, 'We are of course not ready, but we are willing to learn as an industry.'

2 Implications for leasing

Sustainable rental levels

Foodservice 'rental gap' closing...

It is a commonly held belief that foodservice operators generally pay lower rental levels than retailers; the reality, however, is more complex.

It is a commonly held belief that foodservice operators generally pay lower rental levels than retailers; the reality, however, is more complex. This can certainly be the case in certain geographies and centre types, and is also dependent on the category of the foodservice operator. However, the general consensus (and evidence) is that the 'rental gap' is closing between foodservice and traditional retail.

As with traditional retail, rental levels paid by foodservice operators are predominantly driven by supply and demand. For example, in the U.S., where there are numerous places for a restaurant to locate, rents are relatively low. Hong Kong, on the other hand, with its supply restrictions, commands extremely high rents. But even in markets with high supply, rents in micro-locations can be driven up by creating competitive tension; landlords that own centres with a great location, visibility, co-tenancy and trading characteristics will benefit from competitive bidding for space from foodservice tenants.

Rental levels are also driven by the food category that landlords are demanding. In some Asian markets, for instance, landlords do not necessarily want to see chain restaurants (particularly those that are over-exposed) in their centres. Across the globe, the 'fast-casual' operators tend to drive rental levels, as both the in-demand food category and the most expansive operators. They are also one of the most effective foodservice categories in terms of their ability to generate turnover.

The rapid 'table turns' in fast-casual restaurants can often translate into higher rental affordability as customers come and go quickly and spend money on high-margin items – sushi being a great example. This is positive for landlords, who seek to offset some of the lost rental revenue with a higher proportion of 'lower rent trades.' Many Asian countries report that the gap between some foodservice categories and the traditional retail store rent has narrowed considerably as a result of this trend.

...driven by turnover (percentage) deals

In the right centre, turnover (percentage) rent can and does boost foodservice rents to levels paid by traditional retailers. While not applicable in some smaller, neighbourhood centres, where tenants simply pay ground leases, restaurant concepts frequently pay strong rent in larger destination centres (although retailers may pay more base rent). And if they are successful, landlords capture the turnover rent, which puts foodservice almost on a par with retailers in terms of achieved rent.

A note of caution is required around the natural limits that foodservice operators experience when it comes to generating turnover, however. While retailers' turnover can be almost unlimited, with the only restriction being stock availability, restaurant turnover is naturally limited by capacity, and the amount of 'covers' they can physically achieve (despite the potential boost to turnover provided by food delivery).

Lease lengths shortening

The other myth around leasing to foodservice operators is that they command much longer leases than retailers, due to the higher levels of capital expenditure required to fit-out and maintain restaurants. Certainly, foodservice operators have traditionally sought to sign long leases of 15, 20 or even 25 years in particular markets. While many landlords are willing to offer these terms, they need to be confident that those foodservice brands have sufficient vision and flexibility to develop and meet changing consumer needs over the term of the lease.

Despite variations by country and category, average foodservice lease lengths are, by and large, becoming shorter around the globe. Table 8 provides some average foodservice lease lengths in shopping centres, along with a traditional retailer comparison, for some of the key markets:

Table 8. Average Foodservice and Retailer Lease Lengths

Country	Average Foodservice Tenant Lease Length (Years)	Average Retail Tenant Lease Length (Years)
Spain	12	5 - 10
Germany	13	10
United Kingdom	15	10
United States	10	5 - 10
Canada	10	10
China	3	3 - 5
Japan	2 - 5	3 - 10
France	10	10

Source: JLL

This shortening of lease lengths benefits both operators and landlords. The landlord gains the opportunity to replace poorly performing and 'out-of-fashion' operators with fresh, new concepts. The operators avoid committing to long-lease agreements. This is a particularly important consideration these days when the nature of retail is constantly evolving with little certainty around what the dominant shape and form will be in 15-20 years' time. The downside of shorter lease terms, in some Asian markets in particular, is that it creates incentives for poorer-quality interior fit-outs, and also opportunities for 'rent gouging' upon renewal if the restaurant is seen to be doing well. This can unintentionally create margin stress for foodservice operators, and reduce the lifespan of the restaurant.

Creating right mix of local, national and international chains…

Another key challenge for leasing teams is to create the right blend of local, national and international chains, and ensure the mix is appropriate to the customer and catchment. 'To have a great food experience you need great food operators,' as one landlord commented. For landlords, it is a question of balance, and ensuring, as with traditional retail, that there is enough foodservice quantity and variety to meet customer needs.

In the U.S., for example, every landlord currently wants a Cheesecake Factory and/or a Shake Shack. As Suk Singh, Chief Development Officer at Bloomin' Brands, commented, 'No other operator does the volume that Cheesecake Factory does. Cheesecake Factory offers a big menu with real variety. The price points are higher than many of the diners there are used to, but the quality and the portions are so large that the average diner feels like they're getting value for their money.'

The challenge is for leasing teams to keep informed of the latest gourmet trends, find the right tenants, with the right blend, and put them in the right areas of the centre, to satisfy customer needs, keep tenants happy and ultimately drive the right levels of rental income.

At the same time, in common with other countries, many of the traditional national chains in the U.S. are starting to feel tired, and lack the high-end décor, excitement and entertainment that modern diners are craving. On top of this, landlords need to factor in the tastes of the millennials, who are seeking local and authentic restaurants with fresh concepts and great service.

In China, the variety of food concepts seen on the upper floors of shopping centres has increased dramatically as consumers have become much more adventurous, open to new experiences and familiar with regional cuisines as a result of increased travel, especially to Japan and South Korea. Meanwhile, mainstream chain restaurants are increasingly relegated to the basement floors, rather than being main attractions in prime spots as they were in previous years.

The challenge is for leasing teams to keep informed of the latest gourmet trends, find the right tenants, with the right blend, and put them in the right areas of the centre, to satisfy customer needs, keep tenants happy and ultimately drive the right levels of rental income.

… and willingness to take risks

Foodservice operators are rapidly becoming more professional; however, many prospective restaurant tenants have no trading history, weak or no credit history, in a sector where failures abound. However much due diligence landlords undertake on new restaurant brands, ultimately they must be prepared to take on an element of risk in order to meet customer demand for new and unique concepts. Landlords must also be flexible in their approach to these operators and provide support such as business and financial management.

For many owners, exposure to risk can be limited by creating a mix with independent, national and international chains. Other landlords are experimenting with non-traditional lease structures, such as Trinity Groves in Dallas in the U.S., where the owners are also partial investors in the restaurants, effectively sharing the risk (and the rewards).

CASE STUDY

Trinity Leeds, U.K.

Key lesson: *Incorporating the right mix of retail and leisure elements, and lease flexibility to ensure freshness of offer has proved central to driving footfall and dwell-time.*

Trinity Leeds, owned and operated by Land Securities, opened in March 2013. The centre has a total gross lettable area (GLA) of 72 250 sq m and over 120 retailers. Food and leisure accounts for over 25% of total units at Trinity Leeds, which includes a rooftop dining terrace and basement cocktail bars and an extensive public arts programme complements the leisure offer.

JLL worked on the strategy and design of foodservice for six years, delivering a unique concept. Trinity Kitchen includes both food pods and authentic street food trucks which are rotated in and out of the scheme on a monthly basis, providing unmatched variety of offer. This concept has set a new benchmark for food hubs in Europe, developed partly to create an all-day venue for the adjacent 120 000-employee office hub. Trinity Kitchen has exceeded all sales budgets and visitor expectations. Leeds has enjoyed a reported increase in overall visitor numbers of two million as a result of the development and has moved into fifth place on the U.K.'s hierarchy of top retail locations.

Leasing teams, in dealing with foodservice operators, do not always speak the language and truly understand the economics of restaurant operating.

Another way of incorporating the necessary dynamism into centres is through the use of pop-up spaces and restaurant concepts. This requires great lease flexibility and, again, a measure of trust and risk on the part of the operator. Pop-up stores and small concept stores may be attractive to test new ideas, but landlords must be willing to carry greater risk for non-creditworthy, unproven tenants.

Education: leasing mindset needs to change

Ultimately, the challenge for leasing teams in dealing with foodservice operators is that they do not always speak the language and truly understand the economics of restaurant operating. For instance, leasing teams should not directly compare a prospective foodservice operator with a traditional retail tenant as their respective margins are completely different.

Enlightened leasing agents should approach a foodservice deal by forecasting what they believe a restaurant operator can achieve in annual sales, then working back to ascertain the threshold whereby occupancy costs are reasonable and sustainable. This avoids renegotiating rents after a short period because an operator's occupancy costs are too high.

And the differences go much deeper than sustainable rental levels. According to Glenn Green, Vice President Real Estate and Development at Oxford Properties Group, 'You need to approach restaurant leasing very differently than traditional retail leasing. A major restaurant group is unwilling to accept an open relocation or demolition clause because of the significant capital investment involved in the tenant's improvements. A relocated premise needs to be similar in size (including patio area), configuration, ceiling height, customer accessibility and sightlines to the original premises before a restaurant group will consider a relocation.'

So, if landlords are committed to bringing 'game changing' restaurant operators to the shopping centre market, to creating the dynamic experiential foodservice offer required to meet consumers' demands, they have to approach foodservice leases with a completely different mindset from traditional retailer leases.

3 Implications for asset management

Creating the right space/concept

Food court, food hall, market, cluster or standalone?

One of the major challenges facing asset managers when it comes to successfully integrating foodservice into shopping centre environments is to create the right space and concept for the catchment and shopping patterns of a particular centre. Whether it is a food court, a food hall, a market, a restaurant cluster or standalone units, the key is understanding the customer base and where those customers are coming from. Is it a tourism-based site? Is it transit-oriented? Is it an urban centre where primary customers are the lunchtime office crowd? Is it an out-of-town regional scheme with wide reach and draw?

Several factors can be influential when considering the right type of food space, such as:

- **The residential core catchment**: This can almost act as the underpinning 'litmus test' to evaluate the types of catering offers and sustainable sales density.
- **Understanding how the consumer base changes** throughout the day, evening and weekend is also important, as is how the physical environment changes over these periods, using lighting, sound and technology. Creating a suitable atmosphere is a major consideration as retail and catering environments merge.
- **Finance**: Refurbishment/redevelopment costs outweigh the potential returns. Asset managers rely on the impact of foodservice increasing footfall, dwell time and wider retailer sales to justify the large capital expenditure.

While the right concept is also highly dependent on the asset type and geography, some broad assumptions can be made regarding the requirements for each foodservice concept (see Table 9).

Table 9. Requirements/Characteristics of Foodservice Concepts

Concept	Brief Description	Requirements/Characteristics
Food court	• Food area built around a common seating area surrounded by a periphery of food vendors • Has a heavy reliance on fast food	• Scaled up, as a critical mass of operators in larger schemes • Also still relevant in smaller neighbourhood centres/open-air centres
Food hall	• Food area offering a wide variety of concepts by a mix of vendors, often providing alcohol • Focus on quality, authentic food offerings • Typically feature a strong contingent of artisanal food vendors • Often curated or operated by a celebrity chef or well-known restaurateur	• Relatively new concept, unproven? • Needs a densely populated catchment, urban locations • Healthy daytime population, educated consumer, and no competition in market • Can be cost prohibitive
Restaurant cluster	• A cluster of restaurants in the same area of a centre	• Creates a critical mass of restaurants • Suitable for larger destination malls • Can blend multiple foodservice categories into one cluster
Standalone units	• Standalone units scattered around a centre	• Importance of restaurants at mall entry points • For convenience in smaller neighbourhood centres • Provide pit stops in larger centres

Source: JLL

Food halls come of age

While some landlords are re-thinking and upgrading their food courts, others are embracing the idea of food halls as anchor tenants. Food halls are a hot trend at the moment, particularly in the U.S., where there are almost 100 major projects of this kind underway. Food halls can be a great way to freshen the foodservice mix within larger, destination centres, often as a replacement for food courts. They provide the opportunity to address all restaurant categories, across all price points, whether they be 'social houses,' local operators or premium casual, even up to 'fine dining.' And the large spaces that many of these concepts can fill can also help landlords seeking to replace vacant or struggling department stores.

Food halls work well within urban, densely populated areas, but they are asset-dependent, and potentially cost prohibitive. For smaller neighbourhood centres in particular, the cost of replacing food courts with a food hall can be counter-productive. As Stephanie Mineo, Senior Vice President at Ashkenazy Acquisition, commented, 'It is generally not as simple as re-skinning a food court, and replacing it with a food hall. The food court footprint is already in place, and the emphasis here should be on refreshing the mix, looking at types of tenants within the catchment, the shopper type and where the void is in the market.'

Another issue with rolling out food halls in shopping centres is that they are not easily scalable across multiple properties. As a concept built on authenticity and originality, it is not really feasible to put the same food halls in multiple centres.

CASE STUDY

Eataly Food Halls, U.S.

Key lesson: *Food marketplace concepts thrive in high footfall, sophisticated urban locations, or superregional centres.*

Eataly, an Italian marketplace concept with a global footprint, has 34 outlets globally and five in the United States, and has been locating its food hall concept in various urban locations across the country since 2010. Though each is slightly different, the typical Eataly features an open market; a variety of counters selling items from gelato, cannoli and other desserts, to a salad bar, and meat counter; at least two cafes; a wine shop in certain projects; and space for classes and events, all within 4 200 to 5 850 sq m spaces.

The first Eataly in the U.S. opened in New York near Madison Square Park in 2010. It is over 4 650 sq m and has contributed to an increase in pedestrian foot traffic and in rents (by as much as 15%) in the NoMad (i.e. North of Madison Square Park) neighbourhood.

In 2013, Eataly opened a new location in Chicago's Shops at North Bridge in a 5 850 sq m space adjacent to the shopping centre, the largest Eataly in the U.S., costing an estimated $20 million. Despite being connected to the Shops at North Bridge, there is no internal connection between the two spaces, effectively creating a standalone Eataly in Chicago's River North neighbourhood.

The second New York City Eataly location opened in August 2016 at Tower 4 of World Trade Center, a 215 000-sq m office tower. Located on the fourth floor, the 3 700 sq m retail space aims to be part of the revitalisation of the Financial District in lower Manhattan. Historically, the Financial District has been a '9 to 5' destination but has been transforming into a more vibrant neighbourhood with the nearby renovation of Brookfield Place and the opening of the Westfield World Trade Center which sits below the Downtown Eataly. Both projects have added over 65 000 sq m of retail to the area.

Most recently, Eataly opened a 4 200-sq m location in Boston in the former Shops at Prudential Center food court. The Shops at Prudential Center is an urban shopping centre within Prudential Tower, a traditional office tower in Back Bay Boston. Securing Eataly could be seen as a move to maintain Back Bay as a top-tier destination. Owner Boston Properties has also proposed a mixed-use project at the adjacent subway station that if approved would draw large-scale investment to the area.

Slated for a 2017 opening, Eataly will be part of the newly renovated Westfield mall, a super-regional shopping centre, in Century City, Los Angeles. Construction began in 2015 on the €750-million remodel of the Westfield centre to make it a 24-hour destination. Westfield is revamping the outdated mall originally built in 1964 to create eight acres of new outdoor space and 70 new shops and restaurants that will complement the larger Century City renaissance with several other projects currently planned or underway to create a more vibrant, pedestrian-friendly neighbourhood.

It is important to match the foodservice offer to the centre type and the catchment. Consumer research is vital here to understand the demographics and customer preferences of the local catchment.

Strategic approach to foodservice

For destination shopping centres, a cluster of foodservice in one form or another in close proximity, with great operators and choice, with strategically dispersed restaurants around the centre at key points, is often the optimum solution, in order to create a food destination with real critical mass. For these centres, it is also critical that food becomes a complete standalone and independent experience, thus creatıng its own dimension and value-add.

In general, landlords need to take a much more strategic approach to getting the foodservice concept and mix right. In fact, the more a landlord knows about restaurant operators' business models, the greater the need for a strategic approach to foodservice to improve asset performance. It is important to match the foodservice offer to the centre type and the catchment. Consumer research is vital here to understand the demographics and customer preferences of the local catchment. In addition, the quality, quantity and pull of a centre to foodservice operators depends on competition within the catchment (for instance, are there other foodservice hubs or local competing schemes that are more attractive to restaurant operators?). Investing in foodservice people (particularly those who really understand 'category management') is also essential for landlord and developer businesses.

Location and integration with retail/leisure

Successfully and seamlessly integrating the foodservice offer with the broader leisure offer (where appropriate) is another crucial factor for asset managers to address. Leisure drives footfall and dwell time, particularly in the evening, while food completes the experience for the customer.

As a general rule of thumb, asset managers should try to cluster key leisure activities in adjacent locations that extend the day part for the centre. In other words, put the leisure, such as the cinema, and the foodservice close to each other, with logical entry and exit points, and clear ways of closing off and enhancing the experience around this space when the rest of the centre is not open.

While a cinema is a good anchor for evening trade, it has not historically been a driver of lunchtime trade. Most cinema operators, however, are now viewing lunchtime trade as the biggest opportunity for growth, and are using initiatives such as discounted rates, kids' clubs, breakfast clubs and corporate hire to exploit this opportunity. Several cinema operators also have food offers which provide them with an add-on opportunity.

The strategic alignment of similar price points of brands is one method of successfully integrating foodservice into the broader leisure and retail offer.

In addition, optimising the linkages and alignment between foodservice and the broader retail offer is becoming an increasingly important skill for asset managers to master; finding the perfect mix is becoming a science. A consensus emerged from the interviews that there is still a need for better integration of foodservice into shopping centres' overall offer, and that, as visitors already spend their time within centres, there must be an opportunity for better cross promotion between retail and foodservice. This is a key challenge: how to encourage movement and interaction between foodservice and retail during the day to maximise cross promotion, while retaining the ability to shut foodservice and leisure off from 'dead' retail in the evening, to create a standalone destination that is an attractive space in which to spend time.

The strategic alignment of similar price points of brands is one method of successfully integrating foodservice into the broader leisure and retail offer. Foodservice price points should not be much more expensive or cheaper than the other leisure and retail brands; price synergy is clearly a prerequisite across the various use categories.

CASE STUDY

Siam Paragon, Bangkok, Thailand

***Key lesson:** Proactive asset management includes successfully linking the foodservice to retail in terms of quality of offer, and pricing strategy*

The 500 000-sq m Siam Paragon, owned by Siam Piwat, is the centrepiece of Bangkok's core shopping district and is one of the most 'Instagrammed' shopping centres in the world. Opened in 2005, Siam Paragon connects directly to the city's busiest mass transit station Siam, as well as linking to the recently renovated Siam Center. In addition to over 250 stores, the renowned retail complex also offers many world-class attractions including Paragon Cineplex with over 14 large theatres including an IMAX and luxury screen, Enigma; the Southern Hemisphere's largest aquarium, Sealife; Royal Paragon Hall, downtown Bangkok's most prestigious convention and exhibition venue; and the world's largest kids' attraction, Kidzania.

The main floor is home to some of the world's most prestigious luxury brands, while Paragon department store, Thailand's largest, and fashion and lifestyle retailers on the upper levels complete the holistic shopping package. The ground floor houses Bangkok's largest gourmet supermarket and a broad range of dining options, and represents a key point of entry for many high-end and premium foodservice brands. The recently renovated 'Gourmet Garden' is a lifestyle dining concept that links seamlessly to the retail offering and includes a vast array of international and leading local foodservice operators, including Crab & Claw, Vivarium, Another Hound, Clinton Street Baking and Wang Jia Sha, in a lush setting with indoor and alfresco dining.

As the next chapter explores, incorporating the right technology solutions into a centre, such as new methods of tracking customer movements, and how they interact with the foodservice, leisure and retail space, is a crucial tool for asset managers when it comes to successfully integrating food with other uses.

Operational challenges

The impact of a growing foodservice offer on operational elements of a shopping centre is potentially significant, in terms of both cost and complexity of operations. Landlords need to pay far more attention to curating the 'customer journey,' whether it be through parking (directing cars to the right area of a car park at night) or other key guest 'touch points.'

Increased demand for parking

Increased parking demand is perhaps the main operational dilemma that asset managers face when expanding foodservice offerings. Restaurants, especially those that generate significant customer volumes, tend to require more parking spaces and can create operational challenges should sufficient parking not exist. At peak dining times, insufficient parking could deter both restaurants and retail customers and cause potential conflict with existing retail tenants. Despite this, in general terms, retail and leisure parking demands work in harmony; retail traffic tends to peak during the day and leisure during the evening. Carefully considering tariffs can also help incentivise or deter parking, depending on available capacity.

According to Adam Schwegman, Vice President EAT/DRINK at GGP, 'Perhaps the easiest solution for some larger centres is to add valet parking, but this has its own challenges. Parking spaces must be close enough so valets can use them, but not so close that they take up customer parking. And the service must be priced right – it is very market dependent.'

Opening hours/evening economy

There are certainly some additional costs associated with having more foodservice that landlords must absorb, including food bins, waste and collections. These additional costs also include extended opening hours for foodservice trade, which increases lighting, heating and security costs (including concierge services, which are becoming increasingly common at destination centres). These costs are often significant for existing retailers (and therefore the landlord), who often experience increased operational costs and limited sales growth during any extension of trading hours. For existing schemes, it is therefore more appropriate to realign operating costs and to accommodate as many of the additional costs as feasible.

However, according to the landlord interviews, the additional associated costs do not play a significant role in the decision-making process for most landlords when it comes to extending opening hours, and are outweighed by the benefits of longer hours for overall centre trade.

Service charges

Service charges tend to be higher for foodservice operators than traditional retailers due to the additional food court space, longer trading hours and operational charges. However, smaller local foodservice operators are often unwilling to pay significantly more than the traditional service charge costs and will often request service charge caps with the landlord contributing to the shortfalls. While national operators are generally more inclined to pay a higher service charge, this may not be the type of operator needed to create a point of difference for centres. Overall, the asset manager has to balance creating a point of difference to attract consumers and a tenant mix that suits the consumer base, with the financial challenges of initial capital expenditure and any service charge shortfalls.

There are various different methods of service charge apportionment; some operators (Westfield, for example) charge all tenants for communal foodservice spaces, as they recognise the additional value that they bring to a scheme. The following section highlights the main methods asset managers can use when it comes to food court service charge apportionment.

Breakout section

Food Court Service Charge

Kiosk size apportionment – Under this service charge allocation model, the total food court service charge is divided by the percentage of total kiosk space operated by each tenant. An example of this is given below for a 600-sq m food court, with a total service charge of €583 400.

Kiosk No.	Kiosk Size (sq m)	% of Total Kiosk Space	Service Charge Apportionment (€)
K1	100 sq m	17%	€96 234

Turnover apportionment – Each tenant pays a service charge in the same proportion as it generates sales of the total food court turnover. This is potentially a fairer way of allocating the service charge than the kiosk size apportionment. An example is provided below of a food court that generate total sales of €5 000 000, with the same total service charge of €583 400 as above.

Kiosk No.	Kiosk Annual Turnover (€)	% of Total Kiosk Turnover	Service Charge Apportionment (€)
K1	€808 000	16%	€93 344

Average apportionment – Under this service charge allocation model, the total food court service charge is divided by the average of the total kiosk turnover generated and the space occupied by each tenant. An example, using the same total size, turnover and service charge figures as above, is given below:

Kiosk No.	Kiosk Size (sq m)	% of total Kiosk space	Annual Kiosk Turnover (€)	% of Total Kiosk Turnover	Av. of Size % and Turnover % (€)	Service Charge (€)
K1	100 sq m	17%	€808 000	16%	16.42%	€94 810

Via Centre (flat rate service charge) – Under this option, an element, or all, of food court costs are incorporated into the main centre service charge. This means that the cost is spread between all centre tenants, not just the food court tenants. This is done because the food court is seen as a benefit to all tenants, as it:

- slows footfall
- increases dwell time
- creates a support anchor
- and is seen as a service like the children's play areas, free parking and toilet facilities.

Waste and sustainability

The treatment and disposal of food waste remains an expensive problem for catering operators and, therefore, shopping centre landlords. Tightening regulation has limited the options available and the emerging approaches are conventionally geared around transporting the waste to be expensively processed, with little benefit to operators or the environment.

An innovative solution which is being employed by some centres is the installation of bio-digesters, which convert organic waste to a high-energy biomass fuel source. In some cases, this has reduced waste by around 60-70%, resulting in significant savings in disposal cost and vehicle movements as well as enhancing environmental/sustainability credentials.

CASE STUDY

City Center Mirdif, Dubai

Key lesson: *By embedding sustainability into the overall business strategy, including the foodservice offer, centres can increase the value of the brand, and boost long-term profitability.*

City Centre Mirdif in Dubai, developed and managed by Majid Al Futtaim Properties, was awarded the prestigious global certification for being sustainable. The centre won the Leadership in Energy & Environmental Design (LEED) Gold EBOM (Existing Buildings Operation and Maintenance) certification, the U.S. Green Building Council's programme that recognises best-in-class building strategies and practices. The shopping centre is said to be 40% more energy-efficient than other shopping centres in the region and its tenant engagement programme to reduce costs helped save $350 000 (€330 000) a year.

Sustainability measures were embedded within the foodservice offer. For example, heat and smoke detection systems were installed in the cooker hoods that automatically adjust the speed of the fan according to the level of activity. This led to a 55% saving in energy and a 46% saving on chilled water needed to cool the fresh air to the kitchen, as well as a 25-year payback period.

Strategic marketing

The opening of an increased food offering can impact a shopping centre's requirement for marketing, with different strategic positioning required. Often a marketing launch campaign is required, which is ultimately designed to reposition an existing offer into more of a destinational offer (all day and evening). This may incorporate TV campaigns to broadcast the change. Social media channels play a particularly important role with ongoing marketing and promotions, due to the audience's 24-hour accessibility to this channel, and the way in which messages can be localised to their immediate audience or database.

One of the key criticisms from foodservice operators is that shopping centre marketing is naturally focused around the retail offering, even down to the basics, such as the opening hours advertised on the doors or the website. This can be particularly frustrating for foodservice operators when they are asked to contribute to the cost of marketing through an additional service charge.

Health and safety

The final element of asset management impacted by foodservice is health and safety, and the resultant additional requirements for compliance that this brings. Poor health and safety can ruin a foodservice operator's reputation overnight, and in a shopping centre, particularly in a shared-seating environment such as a food court, the reputational damage can spread to other operators in the same shared-area.

Compliance with the applicable health and safety and food safety laws is mandatory, and this is something that is clearly stipulated in each lease agreement, both for retail and foodservice. As such, adherence to the pertinent laws must be ensured by the operator through a series of checklists, such as food temperature controls and food ingredient labelling. In turn, it is the responsibility of the landlord to ensure that a regular auditing structure is in place to certify that the operator has been complying with the legislation. The landlord needs to keep a record of these audits and, if necessary, be able to provide evidence against the operator in case of non-compliance.

Conclusion: proactivity and dynamism…

While there are undoubtedly technical, operational and strategic challenges as a result of the growth in foodservice, perhaps the biggest challenge faced by asset managers is one of 'mentality.' Asset managers need to be proactive and open-minded to the future; they need to look beyond the cash flow, and the strength of an operator's lease, to understand that 'food is the new king of the experience.'

As a real estate director at Multi Corporation put it, 'It's the proactive asset manager that can see and harness a game changer like foodservice. Asset management is starting to be convinced, especially as food becomes an issue at a corporate strategic level. Proactive asset management sees the benefits, and is going for it!'

❹ Implications for valuation/investment

Historically, foodservice was penalised...

A combination of relatively high fit-out costs for foodservice units and historically lower rents paid by operators (plus the perception of higher risk, lower covenant strength and thinner market, etc.), has traditionally penalised centres that have reconfigured retail into foodservice space, or have large food offers, thereby lowering many assets' value.

However, the industry has matured in recent years, and valuers no longer routinely apply a different yield to foodservice compared with retail. As a consequence, it is now easier to take retail out of a centre and replace it with food and not negatively impact the yield. Indeed, in the U.S., the lower cap rates of some of the national foodservice chains can result in a higher valuation, particularly for power centres (large open-air centres largely consisting of category-dominant anchors). Further evidence from the U.S. indicates that space occupied by foodservice in a shopping centre typically yields higher sales productivity than most retail space does, on average, according to ICSC.

However, some members of the valuation/investment community should be reminded of the fast-moving, consumer-led pace of change in relation to the food offer and what that brings to the wider shopping experience. It is also crucial to fully appreciate the difference between turnover and profit, and the value/cost/benefit that foodservice brings.

Specific lessons to be learned for valuers/investors include:

1. Foodservice as a key part of the sales story
A modern and well-executed foodservice offer is now considered crucial for a shopping centre to obtain 'core status,' in the eyes of an investor. When marketing a scheme that does not provide an attractive foodservice offer, vendors and their advisors often make this part of the 'sales story,' focusing on the significant asset management opportunity that it provides. Investors are increasingly attributing actual upside potential value to the opportunity to improve a shopping centre's foodservice offer, and some even incorporate this upside into their internal underwriting when considering an investment.

2. Deep understanding of operators and their business models
Investors, and therefore by implication valuers, need to truly understand retail and foodservice operators and their business models. Shopping centres are effectively retail-centric businesses, and no longer simply bricks and mortar. Investors and valuers of shopping centres therefore need to become foodservice and retail specialists. They need to understand how retailers and foodservice operators think and how consumers behave, as well as what drives performance and sales density. It is no longer sufficient to simply look at operator credit and sales performance along with lease term as primary drivers of value. Many operators with a prior healthy financial history missed consumer and demographic trends, then quickly underperformed. Such a credit tenant and its long-term lease could impede the value of the shopping center, becoming a liability rather than an asset.

It is important to better comprehend the foodservice offer being provided, how this caters to all consumers, such as the 'grab and go', 'all day/every day,' and other segments. Is the food offer spread across the shopping centre or limited to a food court? Does the foodservice complement the consumer demographic? Different concepts will work better in some centres than others and cultural differences between geographies must also be understood.

Covenant strength continues to be a very important consideration for investors and valuers alike. Historically, it was perceived to be weaker in this sector than in pure retail. However, that has changed over time with many restaurant and foodservice businesses having very strong balance sheets.

A better understanding of the number of covers and how the seating arrangements work is also required, particularly in relation to food courts. Seating arrangements directly influence the amount of trade for foodservice operators, which directly links to turnover and the amount of rent an operator can afford to pay.

Covenant strength[8] continues to be a very important consideration for investors and valuers alike. Historically, covenant strength was perceived to be weaker in this sector than in pure retail. However, that has changed over time with many restaurant and foodservice businesses having very strong balance sheets. In addition, investors have become increasingly accustomed to the need to have new or start-up retail brands in their shopping centres in order to maintain interest and relevance to consumers. Investors may be willing even to accept the weaker covenants that might derive from this situation if it enhances the attractiveness of their shopping centres, increases retail sales and results in value accretion. The same applies to food, and while having strong guarantors is desirable, it is now generally accepted that foodservice 'done properly' will be beneficial to shopping centres in terms of placemaking, increasing dwell time and footfall, and ultimately driving retail sales further. This offsets any dilution of covenant strength.

3. Partnerships with foodservice operators

One way of better understanding foodservice operators' business models is by developing more of a partnership approach. More landlords are taking ownership stakes in their own food tenants, particularly in the U.S., and particularly at upscale centres where attracting the right operators can require sizable upfront investments.

More situations are developing where, to secure desired restaurants, landlords are making tenant allowance contributions of €3 000 or €4 000 sq m, which, in some cases, is disproportionate to what the restaurateur is investing. If landlords are taking that additional risk then they might as well take an actual ownership position, because they are already effectively the restaurateur's partner.

4. Micro/asset level approach

While not seeing every idea or new trend as enhancing value, investors and valuers need to be more open to the rapidly changing retail world and adopt an approach better aligned with occupiers and consumers. Performance drivers in shopping centres vary based on the dynamics of each individual centre and will continue to evolve as retailers, restaurant and leisure operators and consumer behaviour continue to develop.

Certainly a blanket approach to the valuation of shopping centres is no longer valid, and has not been for some time.

Turnover rent, while less prolific in retail leasing than was previously expected, is an increasingly accepted feature for the foodservice sector, in part as online cannot blur the turnover attributable to a restaurant; consumers cannot eat online. Therefore, this is an attractive way for landlords to partner with foodservice operators. As the turnover income becomes more sustained and a track record is established, valuers need to carefully factor this in and calculate the impact on a valuation as a result of the income not being contractually secure.

So practitioners do need to deeply understand the foodservice industry, through both applying the latest trends and data to the specific business plans and management of the shopping centre, and by identifying how this impacts each individual centre. Certainly a blanket approach to the valuation of shopping centres is no longer valid, and has not been for some time.

[8] In the United States, tenants displaying covenant strength are said to be 'credit tenants,' or 'Generally, national chains with strong financial balance sheets, to which an appraiser might apply a different rate, based on lower risk, than to smaller, undercapitalized local operators.' See *ICSC's Dictionary of Shopping Center Terms, Fourth Edition* (New York: International Council of Shopping Centers, 2012), p. 34.

Chapter 4
How can landlords benchmark the performance of foodservice occupiers?

1 Introduction

This chapter explores the direct and indirect benefits of a relevant and appropriate foodservice offer to shopping centres. It covers the direct benefits, such as tenant sales and reducing vacancy levels, plus the indirect benefits, including an increase in footfall and dwell time and ultimately sales at a scheme level, in addition to other softer indirect benefits such as creating destination appeal and 'social glue,' and forming symbiotic and beneficial relationships with retailers and leisure operators.

This analysis looks at how landlords can monitor the performance of foodservice occupiers, what the key metrics are, and whether the direct and indirect benefits can be measured and benchmarked. Case studies are included to highlight the benefits that foodservice brings to retail destinations around the world.

2 Direct performance/benefits

A rent-to-sales ratio of 5-10% (excluding other costs such as business rates and service charges) is considered to be indicative of healthy sales and affordability in mature markets, with high labour costs. Typically, 'impulse' and 'refuel and relax' operators can afford slightly higher ratios of 10-14%, due to the higher margin achievable from their more simple menus; 'casual dining' and 'fine dining' operator ratios are more likely to be around 5-8% for Europe (or, in the U.S., 5-9% for both).

Direct sales from foodservice operator

The obvious direct benefit of foodservice operators to shopping centres is sales through the tills, and additional rent paid to landlords. Foodservice has also helped many schemes reduce vacancy rates, by tapping into an acquisitive and growing sector. While the store remains fundamental to most retailers' strategies, the emergence of foodservice has partially offset any slowing in demand from other sectors. But how can the performance of individual operators be measured, and are there any industry-wide benchmarks to help assess performance?

Financial performance monitoring

Monitoring and maintaining a record of the financial performance of each foodservice operator is the responsibility of the landlord, but there are different ways in which it can be achieved in practice. Analysis can be done 'in-house' by comparing the sales performance of comparable units within each foodservice category (all 'fast-casual' operators, for instance). Alternatively, landlords can hire external consultants who usually hold a significant amount of comparable sales data, which then allows for a more in-depth assessment of financial performance.

Historically, landlords' only real consideration was whether an operator paid the rent. While the approach to value measurement is evolving, a more sophisticated approach is still required. Of the different financial performance benchmarks, sales density per sq m and sales per seat are effective measures for gauging how well the operator is utilising the space. Other useful measures include the number of people served by each unit (calculated by dividing the annual sales by the estimated spend per head) and the foodservice uptake percentage (calculated by dividing the total centre footfall by the total number of foodservice customers). The same calculation can be extended to the unit level, in other words to calculate the percentage of the centre's footfall that uses a specific unit. Also increasingly important is average transaction per customer; shoppers are generally not going to eat more often, which puts the onus on operators driving greater spend per visit.

Some examples of typical financial performance measure formulas are provided in Table 10, along with typical performance benchmark ranges, where available. As with all the data in this report, it must be stressed that these are indicative benchmarks that can and do vary significantly across geographies and markets.

Table 10. Typical Financial Performance Measures

Measure	How to Calculate	What It Measures	Average Benchmark – All Foodservice Categories
Sales density per sq m	Turnover/sq m of unit	Efficiency of space utilisation in generating turnover	€3 000 – €7 000 sq m/year
Sales per seat	Turnover/total number of seats	Efficiency of space utilisation in generating turnover	€10 000 – €15 000 per year
Spend per head of footfall	Total foodservice spend/centre footfall	Attractiveness of the overall centre foodservice offer	€0,5 – €1,50
Average transaction per customer	Turnover/number of transactions	Indication of an operator's ability to generate profitable trade	n/a
Estimated number of customers served	Turnover/estimated spend per head	Attractiveness of the offer, in relation to the other offers within the centre, especially within the same category	n/a
Foodservice uptake	Centre footfall/estimated number of foodservice customers	Attractiveness of the offer, in relation to the other offers within the centre, especially within the same category	20% – 30%
Rent-to-sales ratio	Rent/turnover as a percentage	Indication of an operator's rental affordability, and highlighting 'at-risk' tenants	8% – 15%

Source: JLL (sample of 60 schemes across Europe)

The rent-to-sales ratio is a particularly important measure as it indicates operators' rental affordability and can assist landlords to flag when tenants may be in financial difficulty, and when affordability issues arise. From the operator interviews, a rent-to-sales ratio of 5–10% (excluding other costs such as business rates and service charges) is considered to be indicative of healthy sales and affordability in mature markets, with high labour costs. Typically, 'impulse' and 'refuel and relax' operators can afford slightly higher ratios of 10–14%, due to the higher margin achievable from their more simple menus; 'casual dining' and 'fine dining' operator ratios are more likely to be around 5–8% for Europe (or, in the U.S., 5-9% for both). As a general rule, the more onsite preparation involved in delivering the product, the lower the rent-to-sales ratio a foodservice offer can afford, due to the high labour costs involved in delivering their product.

A ratio over 15% was highlighted as being potentially risky for operators' margins. In emerging Asia, however, acceptable rent-to-sales ratios can be significantly higher, as labour costs are lower, enabling tenants to spend proportionately more on rent. But as labour costs rise, the trend starts to converge with the general experience of Western Europe and North America.

Additional occupancy costs (such as taxes and service charge) also have a significant impact on rental affordability. This is particularly relevant for food courts, where the service charges applied to support the required cleaning and maintenance can effectively act as a 'second rent' to foodservice tenants. As occupancy costs vary greatly by geography and asset, providing useful and meaningful occupancy cost benchmarks is not really feasible.

Operational performance monitoring

Operational monitoring is also the responsibility of the landlord and should be done on a regular basis to ensure that the agreed key performance metrics are met, and hopefully exceeded, by the operator. As with the financial performance monitoring, operational performance monitoring can be done either by an 'in-house' team or an external consultant, or a combination of both.

Frequent and open dialogue with the management of each unit will build trust between the operator and the landlord. Once the trust has been built, the operator is more likely to disclose issues such as negative customer feedback or minor accidents that may otherwise not be brought to the centre management's attention.

To combat the potential lack of transparency, landlords can hire external consultants who can conduct independent 'mystery diner' audits at regular intervals. During an audit, the performance of the unit is measured in terms of the overall cleanliness and condition, the product quality and the service delivery. These operational audits provide the necessary understanding about what lies behind the financial performance of each unit to answer the question why certain units perform better than others.

Operational performance monitoring of foodservice is particularly important because of the higher risks that foodservice harbours when compared with retail. For example, it only takes one operator not maintaining a clean environment to attract pests that can then move freely between units, potentially impacting innocent operators.

3 Indirect performance/benefits

Beyond the direct sales and rent derived from foodservice operators, there are myriad indirect benefits to landlords from having a strong and relevant foodservice offer. Often referred to as the 'halo effect' of foodservice, these benefits stem from the fact that adding foodservice helps shopping centres remain relevant to the customer, generate excitement and experience and ultimately meet customer demand. The 'halo effect' can be defensive in nature, and help schemes protect declining performance measures and market share. The 'halo effect' can also drive additional footfall, dwell time and ultimately scheme sales, as well as some of the softer benefits, such as increasing destination appeal and creating 'social glue' and a community space for a shopping centre.

These indirect benefits can be hard to measure and benchmark at an aggregated level without extensive historic data, and there is also the conundrum of isolating the true impact of foodservice amongst other potential factors. But there is much anecdotal evidence around the indirect benefits of foodservice, pointing to the existence of the 'halo effect.' And the indirect benefits of foodservice came through strongly in the landlord interviews, although most could not provide any supporting hard evidence or data.

DDR Corp: 'Food keeps the customer base at the centre. It provides diversity, and brings a large broad-based customer to our centres. And it encourages them to come back – it can increase scheme sales if you have strong synergy.'

Multi Corporation: 'Food simply helps us to remain relevant to our customers. This in turn translates to loyalty and sales and thus into value.'

Oxford Properties: 'Retail shopping can be considered a form of entertainment and as online shopping continues to become more popular, restaurants and entertainment concepts have begun to fill the void and provide customers with a reason and purpose to visit shopping centers. Restaurants and entertainment concepts have been successful in generating secondary sales for retail tenants and increasing the overall dwell time for shoppers.'

Ashkenazy Acquisition Corp: 'Retail sales can improve by up to 15% by adding the right food.'

Siam Piwat Co. Ltd: 'Food really attracts a breadth and depth of customer above and beyond any other category that we have in our centres. It also creates the experience and 'wow-factor,' and touches people on an emotional level.'

Footfall, dwell time and overall scheme sales

Foodservice as an anchor...

Foodservice can certainly act as an anchor, in terms of attracting visitors and driving scheme-wide sales. As Klaus Rethmeier at ECE commented: 'Food provides a cool atmosphere, plus it gives a reason for customers to stay longer in shopping centres. It definitely plays the role of an anchor, drawing people to centres. Approximately 40% of ECE customers choose a shopping centre because of the food offer; 60% of customers are users of the food offer – this is higher than any other retail usage category.'

For destination centres, the foodservice offer itself must be 'destinational' and have the critical mass and quality to act as a standalone and independent experience. As a rule of thumb, shopping centres with a foodservice GLA of 12% and above in Europe and the U.S. (in Asia this can be much higher, exceeding 30% in some instances) must be truly 'destinational.' These are offers that are able to attract people to the centre because of the quality and depth of the foodservice provision, rather than retail or other adjacent services.

CASE STUDY

Gordion Shopping Center, Ankara, Turkey

Key lesson: *Refreshing a dining offer to create a standalone food destination can drive visitor numbers and scheme-wide sales.*

Gordion Shopping Center in Ankara, Turkey's capital city, is a 50 000-sq m shopping centre operated by Multi Corporation. With 150 shops, including Carrefour Express, Cinemaximum, Koçtaş, Zara, H&M, Marks & Spencer and Bimeks, the centre opened in 2009 and has become one of the most popular shopping destinations in the city.

Multi is altering the food experience to meet expectations of the catchment, and this is showing positive returns in terms of visitor numbers, and also in re-leasing. As Multi commented, 'It is critical that food becomes a complete standalone and independent experience, thus creating its own dimension and value add. Food improves the experience for the customer, extends the visit duration, and functions as an anchor. It leads indirectly to an increase of sales among retailers.'

...but offer must be appropriate to competition

Some centres, in particular the larger destination schemes, can (to a degree) afford to develop any amount of foodservice, particularly if they act as the dominant foodservice offer in the catchment. Other schemes, however, where there are dominant food offers nearby have to match the scale and quality of the offer much more carefully to shopper characteristics and population. This puts a burden on forensic research, both in the centre and within the wider catchment, to fully understand demographics, shopper patterns, the competitive environment and future landscape, in order to 'right size' the food offer.

'Halo effect': no industry benchmark, but anecdotal evidence widespread...

While, at an aggregated level, there is limited evidence of the 'halo effect,' and there are no industry benchmarks available, a recent ULI study[8] of a sample of eight centres did demonstrate evidence of an uplift in retail sales/sq m of 1,2%, post foodservice extensions. The impact of foodservice cannot be isolated in these figures, but it is an indication of the 'halo effect' that foodservice can have on overall scheme sales. Clearly, further research and longer-term measurement of the impact of foodservice at an industry wide level is required.

There is, however, widespread anecdotal evidence of where foodservice has driven scheme sales on an individual asset basis. A 2014 report from JP Morgan Cazenove, entitled 'Dining Out on European Property,' highlighted how adding food and leisure space can boost footfall, dwell times and retail spend. Hammerson's 'Dining at WestQuay' food court extension in the Southampton, U.K. generated a four-minute increase in shopper dwell time at the centre, leading to an extra €52m of sales per annum, or €5,2m of rent, assuming an occupancy cost ratio of 10%, representing €87m of potential value created. And British Land's Glasgow Fort cinema (4 500 sq m) and restaurant (2 400 sq m) extension, increased dwell time by more than 20%. Shoppers rated their experience at the park more highly, and overall expenditure increased significantly (with spend in pure retail benefiting).

Further examples of the 'halo effect' in action to follow:

CASE STUDY

La Maquinista, Barcelona, Spain

Key lesson: *Foodservice that meets customer needs and demands, with the right marketing initiatives in place, can drive footfall and overall tenant sales – the 'halo effect'.*

JLL advised and assisted Unibail-Rodamco on developing the foodservice at La Maquinista, Barcelona. The scope of work was part of a much larger brief, 'Mission Barcelona,' which also included two other shopping centres. The over-arching objective of the project was to respond to customers' needs and desires by offering an interactive and friendly gastronomic experience that revolved around three main pillars: 1. Dedicated, renovated and larger spaces, 2. A wider and improved choice of restaurants and 3. A friendly and interactive atmosphere.

After reviewing the foodservice development proposals, JLL recommended how to enhance the designs to deliver exceptional and attractive spaces and also on how to deliver a year-round event programme that stimulates use. The outcome was a new 'social' space focused around the Dining Plaza with a range of operators. The overall foodservice offer at La Maquinista now accounts for 14% of the total shopping centre GLA. The foodservice redevelopment drove a 7,4% increase in footfall after opening, including 14,1% in the evenings (between 9pm and midnight). In addition, tenant sales grew 5,4% since opening (vs. 1,9% of net additional space created by Las Terrazas).

[8] 'Ingredients For Success: How Food, Drink and Leisure Keep Shopping Centres Competitive,' Washington, DC: ULI Retail and Entertainment Product Council, 2016, p. 6.

CASE STUDY

Westgate Mall, Shanghai, China

Key learning: *Amid intensified competition from e-commerce and new projects, a focus on food and 'experiential retailing' can boost performance of mature, existing shopping centres.*

Located on prosperous Nanjing West Road in Shanghai, Westgate Mall provides an upscale shopping experience over 70 000 sq m of GLA. There are more than 120 shops and restaurants covering fashion, accessories, fine dining, beauty and entertainment.

In common with several other operators of mature properties in traditional retail submarkets in Shanghai, Westgate Mall owner, Hutchison Whampoa, recently increased the amount of foodservice tenants, from 17% to 35% of total net lettable area, in a large scale refurbishment and aggressive tenant adjustment programme. Overall revenue rose 5% from June to August 2016 as a direct result of additional traffic brought by foodservice tenants. In addition, the centre's vacancy rate decreased from 9,7% to 6,5% from Q2 to Q3 2016.

Can the 'halo effect' be measured?

At an individual asset level, the importance of scheme turnover performance analysis, with the right measures in place (rolling 12-month turnover, link to foodservice performance measures, etc.) is paramount to try and measure the 'halo effect.' This in turn puts an increasing onus on landlords developing strong and trusting relationships with tenants. Greater alignment between retailer and manager/owner is increasingly important; data sharing can be a concrete step toward alignment and help provide evidence of the 'halo effect' in action.

Today, improvements in the gathering and analysis of data offer new ways to monitor asset performance. Occupiers can benefit from footfall data for the entire centre, dwell time in certain locations, and interest in special promotions and events. It is now possible to accurately track footfall, dwell time and sales daily, weekly and monthly.

Technology certainly has a part to play here; there are systems available that map from a 'heat' perspective to show specific areas of the centre that have the highest footfall, and also detail the specific flow of traffic around the centre. There are also systems that can be installed in conjunction with the retailers, which track consumers through their phone signals via i-beacons, measuring the location of shoppers and how long they spend in a specific area. Phone operators such as Vodafone, and Internet companies such as Baidu and Tencent in China, are now seeing value in tracking mobiles anonymously (new datasets are also arising from social media usage). While these are expensive systems on the whole (and need a full implementation to work effectively – i.e. it cannot be done half-heartedly), they can be used to show how foodservice pulls people in and where they travel.

Other indirect benefits of foodservice

Foodservice can enhance broader retail and leisure offer…

As covered in the previous chapter, another indirect benefit of foodservice is how a well-positioned food offer can complement and enhance the broader leisure and retail offer. In particular, by successfully linking food with cinemas to create a leisure destination, centres can add 'day parts' and weekend trade to their armoury, driving incremental sales, and allowing for greater consistency in footfall between day and night, weekday and weekend.

CASE STUDY

Intu Trafford Centre, Manchester, U.K.

Key lesson: *The reason for the success of the food offer, in addition to the scale and quality, is the footfall (at the right time of day) generated by the extensive leisure offer.*

Intu Trafford Centre, owned by Intu Properties, is a large indoor shopping centre and leisure complex in Manchester, in the north of England. From the day it opened in 1998 the scheme has been a commercial success, dominating retailing and leisure in its region. Within a 70-minute drive time is a highly affluent catchment of at least six million people. This catchment successfully generates a footfall of over 30 million people per year.

The combination of the stunning architecture, the size and quality of the shopping and leisure offer (which includes a large family entertainment centre and an events venue that hosts a variety of shows including Cirque du Soleil), along with powerful advertising make this centre a success. The scheme has a diverse offer in the form of over 200 retail and leisure units amounting to around 185 000 sq m of space. The food court, the largest in Europe, is known as 'The Orient,' and is designed to look like a 1930s cruise ship. It includes street-like areas inspired by countries from around the world including New Orleans and Egypt, among many others. The scheme reportedly generates €81m in foodservice sales alone per annum.

A strong foodservice offer can make re-leasing to other tenants and retailers easier.

While an important factor, the benefits of linking food with cinemas (and the broader leisure offer) can, however, be overstated, according to some of the interviewees. According to Guy Mercurio, VP Leasing for National Restaurant Group at Macerich, 'While cinemas are important to food, the higher the price point for foodservice, the less impact a cinema has. Cinemas help the 'fast-casuals,' and the 'casual concepts' such as Cheesecake Factory and Shake Shack.'

The benefits derived from linking food and cinemas clearly have geographical nuances. In the Middle East, for instance, the restaurants that do well are the ones that are close to cinemas, because cinemas drive footfall. This is partly cultural; food and movies are the two biggest sources of entertainment outside of the home in the Middle East, and also climate related – the intense heat means a lot of people just like 'having fun hanging out at the mall.' Competition from the new dine-in cinemas can be a challenge for the food offer in Middle Eastern centres, but the food in those cinemas does not usually match the quality of offer in a casual restaurant, and certainly not the breadth of offer.

There was also evidence from the interviews that a strong foodservice offer can make re-leasing to other tenants and retailers easier. According to a real estate director at Multi Corporation, 'Our other retail categories such as fashion definitely see the spin-off from having a strong and relevant food experience. This means a more positive lease renewal uptake translating into stronger and defendable rent levels. It is down to improved customer satisfaction, increasing our leverage over retailers.' And Adam Schwegman from GGP added: 'Bringing in great and unique food brands is really important, for both authenticity and perception. It can certainly help with in-line leasing, depending on the specific uses.'

Softer benefits: Evolution of communities, social space/glue etc.

Successful foodservice is as much about social interaction as it is about the food or the drink. To enable that social interaction, the spaces where the food and drink is served become a central component. Shopping centres that successfully innovate and create the right concept and environment can become social hubs. There are some great examples of shopping centres that are now central to their local communities and where the foodservice space acts as a meeting place for the local community.

CASE STUDY

Harbour City, Hong Kong, China

Key lesson: *Implementing a food offer with scale and quality for a mixed-use scheme can create a social hub for a local community (or city!).*

Situated in the heart of Tsimshatsui alongside the Victoria Harbour, Harbour City is the largest shopping mall in Hong Kong. Developed and owned by The Wharf Holdings, and spanning over a space of more than 185 000 sq m, Harbour City comprises three main retail sections; Gateway Arcade, Ocean Centre and Ocean Terminal. The complex offers over 450 retail shops covering mid-range to high-end brands, around 50 foodservice outlets featuring a wide variety of cuisines, along with three hotels and two cinemas, which creates not only a diverse shopping hub but also a social hub for the city.

As part of a continuous tenant mix enhancement programme, Harbour City has been actively bringing in new culinary offerings to freshen shoppers' dining experience, particularly overseas foodservice operators making their debut in Hong Kong (for example, the upcoming Cheesecake Factory from the U.S. and the Blue Elephant Restaurant from Thailand). The enrichment in gastronomic options has helped drive marginal growth in footfall in the first half of 2016 and there is a waiting list of foodservice tenants looking for space.

As part of ongoing initiatives to enhance the experiential retail element of the mall, Harbour City has allocated a major portion of its expansion (9 250 sq m in total) in Ocean Terminal for foodservice outlets. Although the project is expected to complete in mid-2017, the majority of the space has been committed since its pre-leasing started last year, with secured tenants ranging from casual to high-end dining foodservice operators.

Successful foodservice is as much about social interaction as it is about the food or the drink.

Social media feedback is increasingly becoming crucial in measuring customer satisfaction.

One further softer benefit of a quality foodservice offer, and in providing the right social experience, is the resultant improvement in shopper mood. While impossible to measure the benefit, it is fair to say that a happy shopper is far more likely to spend. As Klaus Rethmeier at ECE commented, 'If you eat good food, you are satisfied, happier and in a better frame of mind for shopping. There are no statistics, but it is definitely an indirect benefit.'

The final indirect benefit that foodservice can bring to shopping centres is that the larger tenants do their own national advertising, and even local directional marketing at key public transport locations. As such, they help to advertise shopping centres, indirectly, through social media, print and video channels. It is a soft and intangible benefit, but landlords effectively profit from 'free advertising.'

Can these other indirect benefits be measured?

These 'other indirect benefits,' including successfully linking food with leisure and the broader retail offer to create real destination appeal, and some of the softer benefits, are again certainly not easy to measure or benchmark. It puts a real responsibility on customer research, customer segmentation, and on monitoring 'linked trips' and measuring the relationship between food and leisure and retail offers, and, perhaps most importantly, on measuring customer satisfaction levels.

Retailer and customer intelligence is key to assessing customer satisfaction and, as such, close alignment between asset manager and property manager is essential. There are various methods of assessing satisfaction, including quarterly/annual customer surveys, ad-hoc surveys overlapped with marketing activity (i.e. obtain detailed feedback on the food offer while running a marketing/promotional event and offer an incentive for doing so).

In addition, social media feedback is increasingly becoming crucial in measuring customer satisfaction. Instant and constant feedback via social media (Twitter, Snapchat and Facebook in particular) is a vital tool in helping landlords and managers really getting to know, almost instantaneously, what customers like and do not like in a centre from a foodservice perspective, and also how improvements can be made.

Chapter 5
How can this be achieved in practice?

1 Introduction

This chapter identifies global best practice case studies to illustrate how foodservice can be successfully integrated within shopping centres of different sizes and formats. There is certainly no 'one-size fits all' optimum solution, but broad learnings can be taken from each 'exemplar of excellence.'

2 Large destination shopping centres

For large destination shopping centres, successful integration of food means planning the 'estate,' not just filling gaps or holes; a site-wide, comprehensive approach is essential.

For large destination shopping centres, successful integration of food means planning the 'estate', not just filling gaps or holes; a site-wide, comprehensive approach is essential. The focus should be on creating a dining destination that has the critical mass to act as a standalone anchor and that caters to the longer dwell times from which destination schemes benefit. There needs to be a breadth of offer, covering as many menu segments as possible, plus a mix of national and international chains and new local concepts, putting an emphasis on flexibility of space. Often there will be several focal points (food courts, food halls, markets etc.) plus a range of operators spread throughout the centre.

As well as being driven by the retail footfall, the foodservice within destination schemes is impacted by other adjacencies and competition within the local area. A significant office population will provide a strong foodservice market, but, conversely, if there is an established restaurant cluster within a short distance of the centre, it will compete with any foodservice offered inside the scheme. A holistic understanding of the consumer base and competitive landscape is therefore critical when defining the foodservice strategy for a destination shopping centre.

There are some incredible examples from around the world of foodservice best practice in destination centres. Below is just a snapshot:

CASE STUDY

Cityplaza, Hong Kong, China

Key lesson: *Enhancing and freshening the foodservice offer through space re-engineering can be an effective defensive measure against declining footfall and sales.*

Cityplaza, owned by Swire Properties, is the largest shopping mall on Hong Kong Island, occupying an area of about 100 000 sq m. Primarily serving residents and workers on Hong Kong East, the centre not only provides about 170 retail shops featuring different categories, but also incorporates extensive foodservice and diverse entertainment elements, including a world-class cineplex, a one-stop-facility ice-skating rink and an indoor kids playground, Jumpin Gym USA.

Following the completion of an enhancement project in 2014, Cityplaza introduced more vibrant and contemporary foodservice operators by dividing larger restaurants into a number of smaller foodservice outlets, as part of its strategy to establish itself as a dynamic dining hub on Hong Kong East. Currently, the centre offers about 38 diverse foodservice outlets. Cityplaza now attracts more families and sophisticated shoppers, which has helped stabilise the footfall and earned itself the status of one of the most popular family malls in Hong Kong.

CASE STUDY

Westfield London, U.K.

Key lesson: *Major shopping centres can become prime dining destinations for consumers, with the right offer and requisite critical mass. However, integrating food with the broader retail offer is crucial to drive cross-shopping.*

Westfield London is one of the U.K.'s most successful retail destinations. The shopping centre, developed and owned by Westfield, opened in October 2008 and provides a unique retail, dining and leisure experience just three miles from the heart of London. With over 170 000 sq m of retail and leisure space, Westfield London is one of the country's largest shopping centres. It houses over 350 retailers and foodservice operators, generating up to €1,15 billion in annual sales and 27 million visitors. The scheme is currently undergoing a €1,15 billion plus redevelopment that will add 62 000 sq m of high-quality retail, residential and mixed-use space to create an appealing townscape with a vibrant pedestrian quarter.

Food is a key part of Westfield London's shopping experience. Shoppers can participate in a wide range of events varying from champagne tasting to 30-minute cooking sessions. The food court trades well thanks to its high-quality offer and variety of new operators; additionally, many other food outlets can be found throughout the shopping centre. Casual dining restaurants, such as Wagamama and the Bull pub are located on 'The Street' outside the main shopping area, which has become a popular dining destination in its own right.

Nearly three-fifths (58%) of all visitors to the shopping centre dined out while there, according to a recent study by Cardlytics, an advertising and technology company that specialises in card-linked marketing. Many consumers preferred eating-out over shopping, with 36% of people dining out and not spending money anywhere else on their visit to the shopping centre. People shopping across multiple categories were more likely to eat at a restaurant during their visit, with 29% of those visiting two categories spending money at a dining outlet, while 28% of those visiting three, four or five categories also spent money on eating-out.

CASE STUDY

The National, Chicago, U.S.

Key lesson: *By combining established and up-and-coming local chef talent in a 'best in class' food hall environment, centres can become food destinations.*

The Loop is Chicago's commercial core and one of the oldest and most established business districts in the country. Many of the district's historic office buildings are no longer attractive to the work and lifestyles of the modern worker. Blue Star Properties purchased The National, a 53 250-sq m office building, for $28 million in 2015. Subsequently, HFF, on behalf of the buyer, secured the €94m financing for its renovation. A historic landmark designed by Daniel Burnham in 1907, it had most recently served as the headquarters of the Chicago Public Schools.

Blue Star acknowledged the need and value in updating the classic building to retain its former glory by bringing it into modern times with updated loft-style offices, new technology and co-working and alternative work spaces, such as the rooftop patio. The building also includes a newly renovated third-floor event area and fitness space which is managed by LifeStart Wellness Network, incorporating state-of-the-art fitness technology within a 650-sq m facility.

One component of this renovation includes the Revival Food Hall which opened to the public in August 2016. The eclectic and upscale 'food collective' comprises 15 fast-casual food stalls within 2 230 sq m, seating up to 300 patrons, including the many workers located on the other 19 floors of loft-office space within The National. The stalls include well-known local restaurants, as well as new-concept eateries such as artisanal taqueria Antique Taco Chiquito, which has its first Chicago location in the emerging Wicker Park corridor, and Aloha Poke serving fresh fish poke bowls, with its primary location in Lakeview. The food hall draws daily crowds for lunch from the many surrounding office buildings, giving the work-crowd new and improved culinary options, in an area that has typically been lacking in alternative lunchtime spots. Furthermore, the new food on offer, combined with renovated office space and fitness and event spaces, is expected to raise rental prices for the building in the coming years.

③ Smaller neighbourhood shopping centres

The emphasis for smaller neighbourhood shopping centres is less around creating a dining destination, and more about servicing the needs of the local population.

Smaller, neighbourhood centres can actually benefit more proportionately from foodservice than larger schemes, as a result of the ownership and connection ('social glue') that a strong and relevant food offer can engender within a local community.

The emphasis for these schemes is less around creating a dining destination, and more about servicing the needs of the local population, be they shopper, worker, student or commuter. There is still a requirement for a mix of national and local operators; quality local operators can provide a strong point of difference, while national or international brands can act as a footfall draw in their own right in smaller schemes.

As a smaller shopping centre is less likely to have multiple foodservice clusters, choosing the right style, whether it be food court, market or 'casual dining' cluster, is vital. Whichever option is chosen, it needs to reflect the dominant foodservice consumer around the scheme. In a smaller centre, the quality of the dispersed foodservice also becomes critical. A strong branded coffee offer, or established 'local hero,' can act as a real footfall generator and therefore its location can impact on footfall flows through the scheme.

Examples from around the world of foodservice excellence in smaller centres include:

CASE STUDY

Mood, Stockholm, Sweden

Key lesson: *A unique food destination, complementing a wider experiential concept, can become the meeting place for a local community.*

Located in the heart of Stockholm's business district, Mood Stockholm opened in 2012, and is a popular shopping and eating destination for local professional workers, residents and increasingly international tourists. Mood Stockholm houses over 50 stores, including premium brands such as Scotch & Soda, Napapijri and Timberland. The 10 400-sq m scheme is differentiated by its established offer, with around 30% of space occupied by foodservice operators.

To turn the site into a popular destination, investment and development company, AMF Fastigheter, introduced the 'Shopping Beyond Shopping' concept, which focuses on making people's daily life more convenient, balanced and exciting. The scheme has a strong food and beverage offer at its core. The food offer incorporates boutique restaurants, casual dining, as well as fast-casual dining and coffee venues on the lower floor.

CASE STUDY

The Point, El Segundo, Calif., U.S.

***Key lesson:** A successful lifestyle centre, and local social hub, can be created through the combination of contemporary local food operators and fashion offerings.*

The Point is a €75 million outdoor shopping and dining centre, located on the affluent Rosecrans/Sepulveda corridor in Los Angeles County, Calif., which generates more than €470 million in annual sales. The project, owned by Federal Realty Investment Trust, opened in 2015 and features an upscale assortment of retail shops and up-and-coming restaurants surrounding a central plaza of palm trees and fountains.

Stores and restaurants in the development feature unique, eye-catching architectural elements. For example, Lucky Brand has a turquoise and chrome Triumph motorcycle suspended from the ceiling. Dining options include two of the most popular eateries in Los Angeles, Mendocino Farms and Superba Food + Bread. Other restaurants include ShopHouse Kitchen, True Food Kitchen and North Italia. The tenant mix, juxtaposed with the outdoor plaza and contemporary décor, combine to make The Point a successful shopping and dining destination in South Bay.

CASE STUDY

Markthal, Rotterdam, Netherlands

***Key lesson:** A destination can be created through the use of unique and stunning architecture, with an innovative combination of different functions.*

Markthal in Rotterdam, developed and owned by Provast, is a market hall situated underneath a stunning arched residential and office building. The building was opened in 2014 by Queen Maxima and is one of the most architecturally stunning retail places in the world. Apart from the large market hall, the complex houses 228 residential apartments, as well as ample traditional retail and leisure space and an underground four-storey parking garage.

The €175m market hall's diverse offer is made up equally of traders from the original market, new stalls as well as international and national retailers. Markthal's major tenants include Albert Heijn, Etos, Gall & Gall, Jamie Oliver, Dudok, SUMO and Fellini. During the day it serves as a central market hall; after hours, the hall becomes an enormous, covered, well-lit public space. Giant glazed walls at each end protect the market from the cold and wet weather.

CASE STUDY

U.P. Town Center, Philippines

***Key lesson:** Matching of foodservice offer to the local population, both student and families, and a changing lineup, can drive repeat visitation.*

U.P. Town Center, situated in Quezon City, Metro Manila, Philippines, is managed by the Ayala Malls group. The centre is marketed as the 'first and only university town center' in the Philippines, primarily targeting students from universities and other educational institutions along Katipunan Avenue, such as the University of the Philippines, Ateneo de Manila University, and Miriam College. The local shopping centre attracts up to 40 000 local students, from both college and high school, every week. The scheme opened in 2013, and is performing very strongly, according to Ayala Land.

The scheme has a strong, vibrant dining concept, and has benefited from a leasing strategy that targeted new restaurant and dining brands over popular fast-food chains and restaurants. The foodservice offering is integral to the success of the shopping centre, and is driving footfall, and repeat usage in particular, with the average shopper coming two to three times a week. Students and families are attracted by the affordable price points, while the specialty concepts are well patronised by the student population in particular, who frequently request new offerings.

4 Mixed-use schemes

Mixed-use schemes need to ensure linkages and marketing to other use-classes are maximised.

Mixed-use schemes have similar requirements to large destination schemes, in terms of creating destinational appeal. Additionally, they need to cater to the needs of the captive catchment, whether it be office, residential or hotel components, and ensure linkages and marketing to other use-classes are maximised.

One of the real benefits that mixed-use schemes have over standalone shopping centres is their social spaces, be they market places, town squares or gathering points, all of which support and benefit from foodservice. Forward-thinking shopping centres are now trying to recreate these spaces within or around their schemes.

There are some first-rate examples from across the globe of foodservice best practice in mixed-use schemes. Below is a snapshot:

CASE STUDY

Brookfield Place, New York, U.S.

***Key lesson:** Success breeds success – an innovative and stylish foodservice offer within a renovated mixed-use complex can create a critical mass of food, and act as a regenerative force for the wider area.*

Lower Manhattan, once predominately a daytime destination for office workers, was forced to redevelop and reimagine itself after the terrorist attack of September 11th. Since then, the area has transformed into a vibrant retail destination for new residents, tourists and office workers.

In 2011, Brookfield Property Partners purchased the World Financial Center, which had suffered damage on 9/11. The transaction involved taking back a 49% interest previously held by Bank of America. Brookfield chose to rename the property Brookfield Place and invested €235 million into renovations, including redesigned mezzanine levels and additional crosswalks nearing the ground-floor entrances, making the property more pedestrian-friendly.

Hudson Eats is a modern food hall that opened in June 2014, featuring 14 local New York fast-casual restaurant chefs with individual long-term leases of their counter-service kiosks. As noted by Mark Kostic, Vice President of Retail Leasing for Brookfield Property Partners, foot traffic and tourism have increased greatly in the area and there is a clear customer base for the food hall within the 745 000-sq m office space in Brookfield Place. Hudson Eats, located on the second floor in a dedicated area, removed from apparel retailers, seats 600 guests within 3 250 sq m.

A year after the opening of Hudson Eats, French culinary market Le District opened at Brookfield Place in July 2015. The 2 785-sq m French marketplace, operated by HPH, is located on the ground floor directly below Hudson Eats, with an entrance easily accessed by street traffic and only a short walk from luxury retailers Hermes and Bottega Veneta. Le District, often compared to Eataly, comprises three restaurants, a patisserie, a wine bar, multiple French and European-inspired food stations and tasting counters, as well as a market, all situated within four 'districts.'

'As people become more aware of Lower Manhattan and are drawn to the area, there's more and more need for additional food,' mentioned Kostic. After becoming a new food destination, 'we are seeing, within Brookfield Place, [retailer] volumes ranging from $3-4 million bucks,' and new retail vendors are opening in the surrounding Battery Park City area. Battery Park City has seen a revitalisation due in large part to Brookfield's new food developments, capturing not only New York tourists but also residents looking for new restaurants, as well as the lunchtime office crowd.

CASE STUDY

Greenbelt Mall, Manila, Philippines

Key lesson: *A large and diverse foodservice offer can become a dining destination, servicing the office, hotel and residential components of a mixed-use development.*

The Greenbelt shopping centre has approximately 85 000 sq m of retail space, forming part of the Ayala Center mixed-use development within Makati CBD in Manila. The retail development comprises five interconnected buildings (three enclosed shopping buildings and two buildings with an al-fresco dining component), which encircle a pocket of landscaped paving and greenery in the centre.

Dining is a huge attraction in the Philippines and generates significant footfall; based on a recent study by developer and owner, Ayala Malls, 76% of visitors came to Greenbelt to dine. Greenbelt Mall is Ayala Malls' ultimate dining and entertainment hub and hosts a wide variety of dining options amid a lush park setting. Approximately 15-20% of the total GLA is allocated to food, although turnover generated by the food offer exceeds this amount. The food offering caters not only to shoppers, but to local office workers, hotel patrons and residents in the nearby residential communities.

CASE STUDY

Ponce City Market, Atlanta, U.S.

Key lesson: *A mixed-use artisanal community with food at its core can regenerate a neighbourhood by offering shopping, dining, living and working amenities.*

Linked directly to the Atlanta BeltLine and situated across from Historic Fourth Ward Park, Ponce City Market represents a very substantial part of the rejuvenation of some of Atlanta's most established neighbourhoods. Jamestown bought the property in 2011 and in three years transformed the old building into a vital community hub with an artisanal emphasis, along with a focus on environmental sustainability and technology.

The Central Food Hall is a flexible marketplace, featuring artisan local, regional and national chefs, as well as local purveyors of high-end foodstuffs. Restaurateurs include celebrity chef Jonathan Waxman (Chez Panisse in San Francisco), Adam Evans (The Optimist), Anne Quatrano (Bacchanalia), Linton Hopkins (Restaurant Eugene, Holeman + Finch), Hugh Acheson (Empire State South), Hector Santiago (Pura Vida) and Sean Brock of Charleston, SC restaurant Husk. Food shops in the marketplace include King of Pops, offering food, frozen popsicles and cocktails; King of Crops, a farm stand featuring all-local grocery items; Collier Candy Company, selling hard-to-find sweets and chocolates and Strippaggio, offering small-batch olive oils, vinegars and gourmet salts and spices.

Ponce City has been a vital economic and cultural catalyst for the Old Fourth Ward Neighbourhood, becoming a live-work-play hub and drawing in both local and non-local consumers. Restaurants in the Central Food Hall are performing very well and have established strong local followings. Furthermore, the project has won several accolades, including 2016 Global Award for Excellence from Urban Land Institute. Travel + Leisure also ranked Ponce City Market as one of the top 25 in its list of 'The World's Coolest New Tourist Attractions.'

CASE STUDY

Pavilion, Dalian, China

***Key lesson:** A foreign operator brought in a more diverse and unique dining experience to attract local office workers and residents in order to compete with local monopolies in the main business district.*

The Pavilion is located in Qingniwa, the core office and retail area of Dalian, a Tier 2 city on the east coast of China. The 12 500-sq m project, operated by Malaysian operator Pavilion, was facing significant competition from a large number of nearby projects run by local players. These malls and department stores enjoyed strong brand recognition from local consumers, who were most likely to consider them as the first go-to location for shopping.

In order to survive in such a competitive environment and differentiate itself from rest of the retail properties only a short walk away, Pavilion prioritised its foodservice section, such that it was the key leasing strategy and a main selling point for the project. The landlord introduced roughly 30 new food brands into the city, making The Pavilion's dining offer (which now takes up 30% of the total lettable area) a compelling proposition for customers in the region. As a result, footfall has risen considerably during meal times, and asking rents for the broader retail space within the scheme have doubled in the two years since the foodservice upgrade commenced.

5 Upgrades/redevelopments

For schemes where the foodservice offer is tired or no longer fit for purpose, the focus must be on understanding the balance between 'too much or too little,' whether to transform some elements or add new wings just for restaurants, and ensuring that the new fits seamlessly with the old and existing offer.

This brings unique challenges for landlords undertaking refurbishment projects; but, as demonstrated below, there are great global examples of where landlords 'got it right'.

CASE STUDY

CF Sherway Gardens, Toronto, Canada

***Key lesson:** Food and fashion can combine at the heart of an ambitious redevelopment/upgrade, as a means of redefining a mall's appeal and positioning within a community.*

CF Sherway Gardens has a long history in Toronto, but a redevelopment programme led by owner Cadillac Fairview has redefined the mall's position in the community. When Sherway Gardens opened just west of Downtown Toronto in 1971, it was home to a traditional mix of department stores and general retail. In 2013, Cadillac Fairview announced a €520-million renovation and redevelopment programme intended to upgrade the mall's appeal with an emphasis on luxury, fashion and food. A 19 500-sq m expansion opened in 2015, with space for an additional 50 stores, a relocated modern upper-level eatery called Gourmet Fare with a capacity for 1 000 diners and a new parking structure. Added fashion retailers like Tory Burch, Kate Spade New York and Harry Rosen helped to upgrade the centre's luxury and fashion mix.

Casual dining options like Joey, The Keg Steakhouse and Bar, and Bar Freddo Caffee offered dining options to satisfy the palates of higher-end shoppers. Canada's first suburban Saks Fifth Avenue location opened in 2016 at Sherway Gardens. The food and fashion ambitions of the mall were epitomised in the 1 700 sq m Saks Food Hall by Pusateri's. The grocer is integrated into the store and is just steps away from the mannequins on display in the Saks menswear department. Operated by a local grocer with 50 years of history in Toronto, Pusateri's offers high-end groceries and prepared food stations in a setting inspired by Harrod's Food Hall in London.

In 2016 Cadillac Fairview was recognised by ICSC for the ambitious North Expansion, awarding the centre a Maple Leaf Silver Award at the Canadian Shopping Centre Global Awards. Up next for Sherway is the opening of Nordstrom in 2017, the third Canadian location for the U.S. department store chain. The spring will also see the return of another local food tradition. The centre's parking lot has played host to a weekly seasonal farmers market for over 20 years. It offers Ontario-grown produce, meats, cheeses and baked goods.

CASE STUDY

Les Glories, Barcelona, Spain

***Key lesson:** The concept took foodservice in traditional shopping malls to the next level, providing a space that combines day-to-day food shopping with a variety of gastronomic options for breakfast, lunch, dinner and every time in between.*

Les Glories shopping centre is a three-storey business and leisure complex located in the heart of Barcelona. It has a total GLA of 68 800 sq m and houses over 160 retail shops, a cinema, a food market, entertainment and play areas as well as a significant amount of office space. In 2000 the local government in Barcelona launched 22@, a major regeneration plan to transform the wider Les Glories neighbourhood into an innovation district. Despite strong growth in population and new companies in the scheme's vicinity, Les Glories shopping centre was facing declining visitor numbers due to economic headwinds and increasing competition from nearby schemes.

In a major revitalisation effort, Unibail-Rodamco refurbished and extended the scheme. A key transformation is the opening of 'El Mercat,' a recently developed 'traditional' food market that houses 20 locally prominent food operators, all focused on offering produce from fresh and high-quality ingredients. Whilst El Mercat has a capacity of 750 seats, shoppers can also visit the market for take-away products and food tasting events.

The opening of El Mercat has successfully turned Les Glories into a popular visitor destination, not only for food lovers, but also for office workers and residents as well as tourists. Footfall numbers have so far exceeded expectations significantly. An additional 10 000 sq m of retail space is expected to complete in 2017, helping to further increase footfall from 12 million to an estimated 17 million a year.

CASE STUDY

ROW DTLA, Los Angeles, Calif. U.S.

***Key lesson:** Innovative use of an outdoor market can be a key factor in an adaptive reuse strategy.*

The Arts District, located just east of the Central Business District in Downtown Los Angeles, is going through a revival as developers convert older industrial warehouses to residential and office uses, resulting in an influx of retail. As these smaller-scale projects change the neighbourhood, more ambitious redevelopment projects are also now underway. ROW DTLA, a 120 000-sq m site with nine existing industrial Beaux-Arts style buildings built by the Southern Pacific Railroad, is now being converted into creative offices, open public space and 18 500 sq m for retail and restaurants, by Atlas Capital Group and Square Mile Capital Management in partnership with USAA Real Estate Company. At Mateo, a neighbouring project with an additional 18 500 sq m of retail has also been added to the pipeline.

A five-acre site within ROW DTLA operates during the week as the Alameda Produce Market, a wholesale produce distribution hub for Southern California. ROW DTLA is now using that site to host Smorgasburg, a weekly outdoor market with dozens of food vendors from all around Los Angeles. The concept originated in Brooklyn, but has proved popular in California. At Smorgasburg LA's grand opening, nearly 10 000 people attended despite the 95-degree temperatures. Smorgasburg LA is open Sunday afternoons year-round, drawing crowds into a portion of the Arts District that previously had very little to attract visitors on off-hours. As new residential and creative office space comes online at ROW DTLA, contemporary urban food and retail users will certainly emerge to serve residents and workers.

CASE STUDY

The Shops at Nanuet, Nanuet, N.Y., U.S.

***Key lesson:** Successful food-oriented redevelopment can 'anchor' a centre, driving scheme-wide sales productivities.*

The Shops at Nanuet is a vibrant, 70 300-sq m open-air centre in Rockland County, NY. The redevelopment of Nanuet Mall has resulted in higher sales productivity and revenues over its predevelopment levels. A key element of the revitalization taking place at this lifestyle centre, owned by Simon Property Group, has involved the role of food. A group of food stores is clustered adjacent to one of its anchors, Fairway Market, including P.F. Chang's China Bistro, Starbucks Coffee, Zinburger, BJ's Restaurant and Brewhouse and similar shops that create a synergy among such tenants.

The shopping centre has recorded over €19 million in total restaurant sales, enabling the foodservice element to act as a collective anchor for the centre.

Chapter 6
What is the future outlook for the foodservice sector within shopping centres?

1 Introduction

The industry is still at the beginning of a transformational journey.

The exponential growth in quantity and quality of foodservice in shopping centres has had a broadly positive influence on the sector and gone a long way to providing the experience needed to meet changing consumer demands in the new world of retail and leisure. However, the industry is still at the beginning of a transformational journey. According to Jonathan Doughty, Head of Foodservice Consulting at JLL, 'The last 10 years have enabled us to understand change and what the challenges are; the next 10 years are about implementing that change. Whatever change we have seen in the last decade, will be dwarfed by the transformation coming in the next decade.' It was clear from interviews for this report that food will be at the forefront of that change and will continue to play a crucial role in future-proofing retail places:

- **Multi Corporation:** 'You can't future-proof anything, of course, but you can always remain relevant. Design malls with far more flexibility in them to allow for infrastructure and tenant mix changes.'
- **ECE:** 'People will always want to be together, and eat together. For ECE, because we are coming from a low base, there will be a lot more foodservice growth.'
- **Panda Express:** 'We need to make the experiential quality of centres key to their future success – keep giving people a reason to go. Make the centres entertainment venues – landlords need to be focused on food and need to be prepared to deliver exciting and adventurous concepts, to meet the demands of the consumer. A partnership between brands and landlord is crucial – both with a common goal.'
- **GGP:** 'How do we future-proof? It's about place-making, creating great environments – anywhere that the customer craves to be, be seen, engage with the community.'
- **Ayala Land:** 'Dining and entertainment is here to stay. That's probably what saved the shopping centre. In a nutshell, everything revolves around the customer. We, as mall developers, should be able to anticipate our customers' needs and wants.'
- **Ashkenazy Acquisition Corp:** 'It's all about generating trips to your centre – maybe even a carwash. And about thinking deeply about meeting the needs of the local market. There's no science to this, it all depends on the type of project, demographics, what's in the local market, what's successful that's in the scheme and what's missing.'

This chapter explores the future outlook for retail and foodservice within shopping centres in particular. What are the new consumer-led food uses and concepts that might emerge in the coming years? To what extent is foodservice subject to the same structural changes as traditional retail in terms of the impact of technology? And what are the risks and challenges of ever-expanding foodservice, and where are the opportunities?

2 Consumers driving new food uses and concepts...

‘It is the millennials that are driving the change.’

Consumers are becoming more informed about food trends and styles, more expectant of good service, value and experience, more confident in preferences and sharing of opinion, and more tech-savvy, social media-connected and open to innovations and new concepts. The most successful dining brands (and shopping centres) of the future will streamline these demands into their offer. As Guy Mercurio at Macerich commented, ‘It is the millennials that are driving change – they want high-quality food, in a well-designed environment, with a clean food chain, locally sourced product, recycled, with technology embedded. And they want to pay and pick up quickly.’

Among all the current trends in the foodservice industry, six appear especially likely to shape the market of the future.

Food Trends

1. **Super-casualisation**
   The growth and popularity of street food, upmarket fast-casual and more diverse casual dining has triggered a marked ‘casualisation’ of food and service. *Finer dining restaurants have taken steps to become less formal*, to keep up with market demands and, as a result, have placed themselves firmly in a more competitive, but more lucrative, market. Gone are the days of booking months in advance or eating at a white table-cloth if one wanted great food from Michelin-starred teams.
   - L’Astrance, Paris: No strict dress code for this exclusive Parisian restaurant
   - Restaurant Schweiger[2], Munich: No table-cloths at Munich’s smallest starred restaurant
   - Speceriet, Stockholm: Offering the same quality as its Michelin sister, next door, but in a relaxed setting
   - Moomoo, China: Customers pick cuts of steak out of a refrigerator as they would ice cream bars; they can then watch them being cooked
   - Hong Kong Soya Sauce Chicken Rice and Noodle, Singapore: The city’s first Michelin star-rated street food operator; shows that demand for ‘super-casualisation’ exists at all ends of the spectrum

2. **Back to my roots**
   Restaurants and chefs are going back to their regional and national culinary ‘roots,’ using *more traditional cooking methods and ingredients*, preparation styles and techniques in order to create and explore tastes and sensations that have been eclipsed by more modern cooking. Smoking food, ceviche, marinades, drying and curing, baking and salting are all part of the modern, yet traditional world of food.
   - Ekstedt, Stockholm: Known for creative dishes prepared in its wood-fired oven and fire pit
   - Palaeo, Copenhagen: Going back to our caveman roots and eating basic ingredients
   - VegDeli, Warsaw: Literally back to the roots, using only root vegetables as key ingredients
   - The Momofuku family of restaurants, U.S.: from chef David Chang starting with a noodle bar, based on Chang’s experience working in Japanese ramen bars. Other concepts with roots in Chang’s past followed, like the Milk Bar dessert shops

3. U-Turning

Operators in the foodservice market have tried and tested different cuisines, styles and techniques, each getting more complicated than the last and demanding more equipment and more skill. More recently, the industry has returned to *simple, great ingredients, cooked and prepared well*, but without the complications, equipment and labour overhead. 'U-Turning' is set to continue as the guest knows more about what they are buying and eating.

- Meat Empire, Australia: All about Greek meats and cooking cuisine from Australia
- Bao, London: Taken from Baozi, this small restaurant serves fresh streamed buns
- The Meatball Shop, New York: with six locations across the city, offers a simple menu of hearty meatballs

4. Slow Cooking

With ingredients and running costs increasing, restaurants have to think of new ways to reduce overheads, while still enhancing appeal, quality and menu offers. The slow trend helps to achieve this in a couple of ways. Firstly, *chefs are now able to use the less expensive cuts of meat*, as they are cooked for longer, at a lower temperature. Secondly, reducing the cooking temperature will ultimately reduce overheads for the restaurant over time.

- Low and Slow Smokehouse, Stockholm: All meats are cooked at a low temperature, for a long time
- NURU, Mallorca: 20-hour slow-cooked beef is one of many options on the menu
- Red's True BBQ, U.K.: BBQ smoke¬house-style cooking of ribs, steaks, rumps and brisket

5. Trash is Cash

Culinary teams are increasingly turning to the 'unusable bin' rather than the fridge for inspiration. The 'Trash' trend is the art of making the less desirable appealing. While making financial and economic sense, it also challenges chefs' skill and knowledge in the kitchen to achieve the unachievable. *Where waste is unavoidable, it is recycled with a new purpose for the greater good.*

- Schloss Schauenstein, Switzerland: Using all parts of the animal, such as tongue and heart
- Silo, Brighton U.K.: With a zero-waste policy, everything is reused with scraps and trimmings turned into compost
- Relae, Copenhagen: Named the world's most sustainable restaurant by the Sustainable Restaurant Association

6. **'Next-Gen' Super Foods**

More than mere super foods, these are ingredients that are cultivated to contain medicinal properties or vitamins and minerals for true health benefits. Production is growing at a phenomenal rate as consumers recognise that they 'are what they eat,' and move to a *more controlled and focused approach to health and wellbeing*. Examples of this trend include chia seeds, acai, spirulina, seaweed and goji berries, all of which used to be seen as a bit 'obscure', but are now welcomed into the mainstream of cooking and foodservice.

- Vegitai, Paris: The first slow food vegetarian fusion of its kind, combining Thai and vegetarian recipes
- Naked Juice Bar, Stockholm: Juices, soups, wraps and sandwiches made with natural ingredients
- TAN, Brussels: Cross-cultured food cooked at low temperature, dehydrated, gently steamed and stewed
- Element Fresh, China: popular chain that dedicates much of its menu towards 'super foods,' combining acai, spirulina and many others into creative combinations
- Original Fresh, China: specialty fruit juice bar chain that offers a mix of 'meals in a cup' that combine fruits, nuts, and seeds
- Freshii, U.S.: A chain that focuses on health and energy, serving bowls, juices and wraps

3 Technology: an enabler and disruptor...

Well-conceived and executed technology is generally enhancing operational efficiency, and consumer engagement.

Closely linked to the emerging food trends, the other main area of innovation in foodservice revolves around technology. It was once a commonly held view that foodservice was relatively immune from the impact of technology, due to the inherently physical nature of eating. But food is as susceptible to advances in technology, and the structural change it can engender, as any other industry. Technology is a game-changer, both as an enabler and a disruptor; but how is technology shaking up the foodservice industry, what are the opportunities and risks, and what does it mean for shopping centres and landlords?

Improving operational efficiency and service

As a general rule, the amount of time consumers are willing to wait for anything is reducing rapidly; technology is playing a vital role here, in improving the operational efficiency of foodservice. Whether it be through new production methods that save time and/or resources, self-service through apps or in-store kiosks, or improving the ordering and payment process, *well-conceived and executed technology is generally enhancing operational efficiency, and consumer engagement*.

Examples of restaurants which are successfully incorporating technology to improve operational efficiency include:

- Taco Bell, U.S.: TacoBot, a chatbot created for workplace messaging app Slack, enables office workers to group order via the workplace app. Orders can be paid for via TacoBot, before collection at a participating branch. TacoBot launched in private beta mode in April 2016.
- Itsu, Bill's, Busaba Eathai and Cheesecake Factory: All have My Check mobile payment app integration.
- Inamo, London: Restaurant where the table is a menu, a video game or TV to the kitchen.

Technology can be integral to retaining guests in the shopping centre.

Technology will also be instrumental in improving customer experience within the foodservice space.

- Wagamama, U.K.: Developed an app to enable finding the closest restaurant and order a favourite dish.
- Burgerlich, Germany: Tablets on every table to order food, card-style payment.
- Panera Bread, U.S.: Uses tablets for ordering, plus apps.
- Chuange Fish Dumpling and Yuxin, China: Amongst a growing number of restaurants where customers order and pay through popular social media app WeChat, via their own mobile devices.
- McDonald's, China: Digital machines take orders and payment instead of a cashier.
- Domino's, Australia: Launching drone delivery pizza in 2017.

With the advent of scalable cloud technology, innovative foodservice operators are starting to adopt advanced analytics and build big-data infrastructures to g*lean insights and drive performance*. This is often through data and agency-tech hybrids, which combine payment data with data from other channels (social media and web sign-up, till data, loyalty card data etc.) and set up automated customer journeys to drive trade. Not only does this provide foodservice operators with rich and powerful insights about their customer base, it also enables them to take into account consumers' preferences to a degree not possible before. Advanced analytics are also enabling restaurant operators to drive efficiencies around menu and staff optimisation, as well as operational improvements and time of day/week analysis.

Technology can also be integral to *retaining guests in the shopping centre*. Popular restaurants often have issues with queuing at busy times. This is currently managed in different ways; some have bars where guests can wait (and spend more money!); in China, most restaurants have seated waiting areas, but even these fill quickly. Shopping centres, however, have a unique opportunity here, due to the critical mass of restaurants in one place. The opportunity is to show their visitors the virtual 'queue' for each foodservice unit and allow them to join these queues at the tap of a button from their mobile phone. This enables them to continue their shopping trip, while waiting for a call or a text when their table is ready.

Enabling 'hyper-personalised' experiences

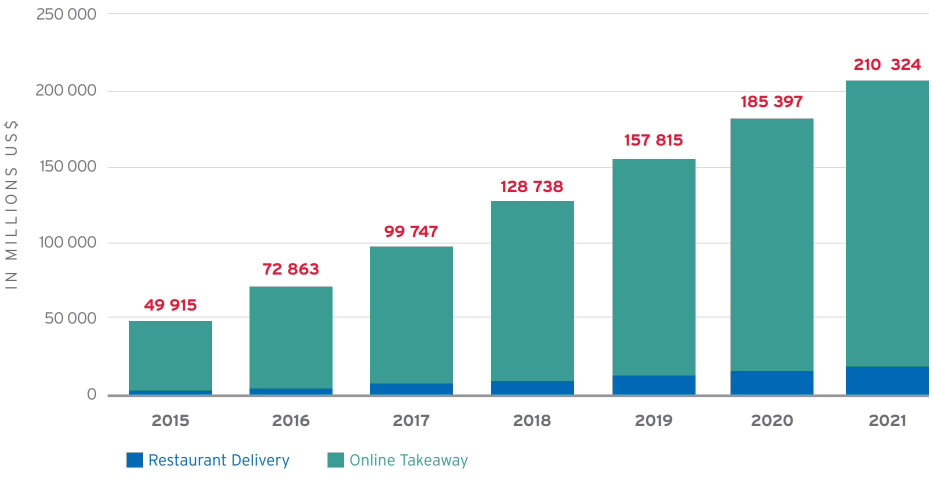
Technology will also be instrumental in improving customer experience within the foodservice space. Advanced analytics and other technologies are enabling a 'hyper-personalised' experience for guests. Many consumers are constantly connected via social media and other technology. *Restaurants are tapping into their 'online addiction' by adapting their service, amenities and virtual reality presence*. Examples of 'hyper-personalised' experiences include:

- Maxwell's Bar, London: Reported a 26% increase in revenue since Pokemon Go.
- Wall Street Bar, Paris: Every 100 seconds, a digital screen displays drink price changes.
- MyMuesli, Berlin: Customise product online before picking up.
- Restaurant Tang, Stockholm: iPad menu ordering, able to see the meal before it is served.
- SubliMotion, Ibiza: Immerses diners in a virtual reality fantasy world during their meal, though they charge €1 900 for the experience.

Game-changing online delivery services

Online delivery platforms are shaking up the foodservice sector in some markets, as many casual dining operators are now branching out into providing takeaway services, in addition to their restaurant operations, with the help of third-party delivery services. Global revenue in the total food delivery segment amounted to US$72,9 billion (€68,9 billion) in 2016, according to the Digital Market Outlooks from Statista. The majority of revenue is generated by online takeaway platforms, with a share of about 93%. The potential growth in the delivery market is illustrated in Chart 2, which forecasts total worldwide revenue to reach US$210,3 billion (€198,8 billion) by 2021.

Chart 2. **Worldwide Revenue in Food Delivery Market**



Source: Statista

Examples of online delivery platforms across the world include:

- **Ele.me**: Chinese e-commerce giant, Alibaba, confirmed a €1,18bn investment in Ele.me, a Chinese food delivery service, in 2016.
- **UBEREATS**: The popular taxi service now delivers food to consumers in more than 50 cities globally.
- **Foodora**: Growing in popularity across Germany, France, Italy and Canada.
- **Deliveroo**: Cyclists across cities in 12 countries delivering food to wherever consumers need it.
- **Deliverum**: A small company that has teamed up with select restaurants in Barcelona.

Given increased consumer demand for a higher-quality and fresher food offer, the upshot for the sector is clear, as are the benefits for restaurants (although according to one restaurant operator, third-party delivery turnover certainly does not go straight to the bottom line as profit). Tapping into the pool of consumer restaurant spend that does not typically leave the home, increasing sales in restaurants without using tables, and having staff efficiencies in serving an increased number of customers are clear benefits to foodservice operators. Online delivery can also create a self-reinforcing feedback loop for foodservice operators; consider the China example where food apps are so pervasive, choices so plentiful, and delivery costs so low, that customers are able to enjoy their favourite food brands whenever they want. This whets the appetite to return to the physical outlet at a later date. And the next generation of food delivery services, which are already at the forefront of technology innovation in the sector (including robot delivery and virtual reality), will no doubt solve the issue of 'hot delivery,' changing the game again.

The consensus from the interviews was that third-party delivery is not having a significant impact on shopping centres, thus far. But this is a trend that is not going away. Some landlords may baulk at the idea of losing footfall and the cannibalising effect that delivery services could have on in-house restaurant spend. For others, the benefits of improving restaurant turnover, and therefore rental affordability, will win out. One thing is for sure: where there are clusters of restaurants, there will be delivery bases. Enlightened landlords will provide the real estate and space these 'delivery enablers' need. They will also provide the technology infrastructure (super-fast broadband, for instance) required by tenants to effectively service the delivery operators.

In terms of design, the restaurants of the future may need bigger kitchen spaces and fewer seats if the 'deliverution' continues. Providing dedicated rear access for delivery drivers should also be considered, as having a stream of delivery operatives coming in through the guest entrance does little to add to the ambience.

Technology brings risk as well as opportunity...

With opportunity comes 'tech risk' for the foodservice industry. The main risk for restaurants, and shopping centres in particular, is around transparency. Technology means that the ever-connected consumer is now much better informed about the options and places to eat, regardless of where they are (the TripAdvisor effect).

This access to information means that it is much easier for consumers to leave a shopping centre, especially if it is in an urban area, to visit a 'star' café, restaurant or bar nearby. Their smartphone will tell them where it is, how far the walk is and how good the food is. The shopping centre, on the other hand, will probably only tell them what the brand is and which unit it occupies in the centre. This competitor transparency is potentially a big challenge for shopping centres, particularly in urban areas.

Technology can also have an adverse impact on service and speed of service. A famous New York restaurant discovered that the slowdown in service (and resultant complaints) it experienced over a 10-year period was due to smartphone usage amongst customers. Whether taking pictures of the food or general phone usage, customers themselves were responsible for almost doubling the average meal time!

Technology is inherently unpredictable.

The thing about technology is that it is inherently unpredictable. It is simply not known how emergent technologies, such as Google cars, will impact shopping and shopping centres in particular. It is also not known what new technology disruptors will emerge in the retail and foodservice space over the coming years. All of which puts a real burden on landlord foresight and flexibility, and on constantly having 'one eye on the future.'

4 Other risks and challenges

Risk of restaurant bubble...

In certain geographies with established branded restaurant markets, the U.K. and U.S. in particular, fast-casual restaurant chains are expanding rapidly, driven by private equity or venture capital ownership, whose business model is to boost the value of their stakes by rapidly expanding the number of restaurants. The same trend is starting to emerge in China, where concepts are being injected with capital and rapidly scaled up across the country.

With the amount invested, and the sheer pace of expansion, there is a growing risk of a 'bubble,' despite the global trend towards growth in eating-out spend. As David Fox of Tampopo commented, 'It's almost a perfect storm. About 90% of brands are now venture capital backed. Venture capital brands are extending too fast, which is leading to oversupply. Plus retail is a bit 'choppy,' so landlords are giving space over to food. It's an accident waiting to happen.'

...exacerbated by rising costs of operations

The rising cost of operations in certain geographies is also exacerbating the situation for some foodservice operators. The cost of labour is rising in the U.K., and potentially the U.S. will follow suit, if the minimum wage is subject to a significant increase. In California a new law requires farm workers to receive overtime wages, which will impact food costs. And food regulation may also affect costs in the future, as will the business rates revaluation in the U.K. Rapidly rising wages in emerging Asia mean that the low-wage/high-rent equation of the past may start to break down. All of these rising operational costs will put increased pressure on already thin restaurant operator margins and rental affordability, which is a concern if restaurants are expected to hold their weight as revenue generators for shopping centre owners.

Intensifying competition for food spend

Food and beverage can be incorporated into almost any space with a bit of creative thinking. As demand rises and falls for various property types, the foodservice industry has been creative and responsive in terms of embracing this trend. This is only set to continue and is going to be an influential movement in the next decade, particularly as new technology is enabling foodservice to go into places that were previously 'no-go' areas. New build, purpose-built real estate for food operators is becoming scarcer, while regeneration and repurposing of existing buildings proliferate. Examples of this are 'pop-ups', street food in old buildings that are awaiting demolition and the many conversions of banks, libraries and even public toilets into food spaces. Pop-ups appeal especially strongly to customer segments constantly in search of 'what's new, what's hot and what's 'Instagrammable'.'

The impact on shopping centres is clear; the repurposing of property simply intensifies the competitive pressures already faced by shopping centre food offers from traditional foodservice locations.

5 Is the trend for more food permanent or cyclical?

The main drivers behind the shift to foodservice in retail in general, and shopping centres in particular, are unlikely to diminish in the next decade.

The main drivers behind the shift to foodservice in retail in general, and shopping centres in particular, are unlikely to diminish in the next decade. These macro factors include: urbanisation and population growth, the need for shopping centres to be 'destinations,' the millennials' insatiable demand for experience over 'stuff,' the changing dynamics in lifestyle facilitating out-of-home food consumption, and growth in eating-out as restaurants become the social areas, particularly in cities where people do not have as much space in their homes. All of these forces will be as relevant in 10 or 20 years' time as they are now. So there is undoubtedly a structural, permanent element to the foodservice trend at a macro level – it appears to be a long-term shift.

Potential oversupply: at an asset level

However, in certain geographies and markets, there is a risk of oversupply of foodservice in shopping centres, particularly where food has been used as an answer to rising vacancy, as certain retail sectors have been hit by online. To a degree, it is country dependent and it depends where a market sits on the development curve. But it is not just a mature versus developing market dynamic; Germany, for instance, has a relatively limited amount of foodservice in shopping centres, so any growth can be more easily absorbed than in other mature markets, such as the U.K. and U.S. Mainland China has seen a huge rise in overall shopping centre supply but, thus far, a seemingly insatiable appetite for foodservice. Will the point arrive where food oversupply becomes apparent?

Any oversupply situation is likely to be at a micro asset level, and will depend on the type of centre and the competition. For some centres there are natural limiters to foodservice expansion (parking ratios, for instance). And for larger destination centres that need a 'destinational' foodservice offering, it may be hard (within reason) to put in too much food. But for smaller centres, perhaps where there is a competing foodservice cluster in-town and a centre is not the dominant food offer, there may only be a requirement for the amount of food that supports footfall.

In general, the perception from the interviewees was that there is a risk of an oversupply of 'standard' product. Landlords need to be very careful about overlapping uses (not putting in too many burger restaurants!). And there has to be a real focus on quality, authenticity and experience in combination with creativity and creating something new, which is there to last.

6 Conclusion

The evolutionary change in foodservice globally is principally structural, rather than cyclical. People will continue to eat out in greater numbers, driven by unstoppable demographic and consumer forces. The challenge for the shopping centre industry is to ensure that foodservice is of the right size, quality and position, is relevant, fresh and competitive and, crucially, provides the experience to ensure that consumers 'eat-in,' rather than in the myriad alternative food destinations

There is no 'one size fits all' solution. Landlords must know their own customer, catchment and competition, and customise the food offer accordingly; this is arguably far more important for food than for retail. They must be aware of the trends shaping the food market, and ensure that offers remain fresh and vibrant. They must be alert to the current and future disruption caused by technology. They need to get much closer to operators, to understand their business models and requirements, and guide them on their shopping centre journeys. And finally they need to put steps in place to measure the benefits (both direct and indirect) that food brings to their centres – without evidence, how can improvements be made?

As one landlord commented, 'The future is hugely positive for gastronomy. I am excited to be involved in the industry during such a rapid period of growth and change.' As highlighted at the outset of the report, ongoing change does bring risk, but it also brings opportunity for entrepreneurs, the skilled, the smart and the brave. As any great chef knows, the key to perfecting any meal requires the right ingredients, know-how and the ability to meet or exceed customer expectations. The route to successful integration of foodservice in the built environment is no different; the appropriate offer, combined with effective implementation, will reap rewards.

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