

Entertainment Center And The Regional Mall: Differences And Similarities

Entertainment centers are still in that creative process before they are fully defined. Using the ten or so entertainment centers that currently exist as an example and comparing them to a regional mall portfolio, some key differences and similarities can be drawn.

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Everyone understands the underlying economic and market forces behind the successful development of retail real estate. However, the parameters guiding the development of a project that is predominantly entertainment oriented, the so-called retail entertainment center, has been much more illusive. It is a new product. It is a moving target. It is defined and redefined daily in our industry.

In a 1996 article in this publication [Entertainment/Retail Centers Emerge Nationally, SCB, December 1996, page 46], I wrote of the emerging retail entertainment center developments in California. Most of these projects, we have found, are anchored by multiplex



Caruso Affiliated Holdings' Promenade at Westlake is one of California's successful entertainment centers. Situated in an affluent area where the median household income is \$70,000, the center is generating sales per square foot of \$450.



TrizecHahn Centers' Park Meadows Mall is one of a few new regional malls to incorporate an entertainment theme in its design. The center, located in suburban Denver, creates a lodge feel, and has a multi-screen cinema adjacent to its food court.

cinemas. Much new development has occurred in the last 18 months, and we now have a much better experience base upon which to analyze and define market and economic issues. This article will define major characteristics of pure retail and retail/entertainment products and will highlight two extremely different but successful models.

CONSUMER MOTIVATION — TRIP PURPOSE

When the first themed retail environment was developed at Disneyland, Main Street, a new era in selling goods was born. This first attempt to

Table I. A partial listing of entertainment centers currently open in the United States

- Irvine Spectrum, Irvine, California
- Triangle Square, Costa Mesa, California
- CocoWalk, Coconut Grove, Florida
- West End MarketPlace, Dallas, Texas
- CityWalk, Universal City, California
- Westlake Promenade, Westlake, California
- Third Street Promenade, Santa Monica, California
- Old Pasadena, Pasadena, California

backstory.

In 1996, approximately \$1,700 per household was spent on all food consumed out of the home. Although no definitive studies have been

conducted to quantify the size of the themed restaurant market in the United States today, 15 percent of national restaurant expenditure is a rational estimate for the size of this market. This translates to more than \$250 per household (almost 59 percent of all expenditures on fees and admissions per capita nationally).

Another way of looking at these market forces is through an understanding of consumer expenditure

sell "fun" developed into the festival center of the '60s and '70s, and further evolved as the retail/entertainment center today. The major difference in consumer motivation, and hence consumer expenditure, was and is: trip purpose. Goods and services sold at shopping centers and districts are considered necessities; things like shoes for the kids, batteries for the car, underwear for the family. Historically, expenditures on these types of goods and services have accounted for 10 to 12 percent of national expenditures. Goods and services sold at retail entertainment centers (i.e., trips to the movies, game center experiences, large format cinemas, new technology attractions, and gifts and entertainment oriented retail) are considered discretionary expenditures, and until recently comprised only 7 to 8 percent of national expenditure. It is clear that more is spent on necessities than on discretionary goods and services.

The wild card in the expenditure equation is the proliferation of new themed restaurants, which have become a form of entertainment in the American psyche. As new themed restaurants sprang up around the world, they became part of the fabric of the entertainment complex. Now a consumer can enjoy an out of home event, like dinner and the movies, in an ever more attractive and entertaining atmosphere. Further, venues began to outdo each other in theming, with fashion, motorcycles, race cars, race vehicles, all types of music, country-western, the macabre, golf and anything else under the sun as a

Table II. Summary characteristics of Westlake Promenade. (Source: Caruso Affiliated Holdings)

| | |
|---------------------------------------|--|
| Size (GLA) | 210,000 |
| Development Cost | \$43 million, including land |
| Development Cost Per Sq. Ft. | \$205.00 |
| Gross Annual Sales (estimated) | \$100 million |
| Sales Per Sq. Ft. | \$450 |
| Space Distribution (Percent) | |
| Retail | 28% |
| Food and Beverage | 26% |
| Entertainment (Includes Cinema) | 46% |
| Rent Range (Per Sq. Foot Per Year) | \$24-72 |
| Overage Rent Range | 2%-8% |
| Primary Market | 10- miles |
| Market Demographics (Owners' opinion) | Median Income, \$70,000 College Educated Young Families Mother doesn't work Age range, 25-45 |

choices. Data on this behavioral set is derived through consumer research (focus groups and intercept interviews) and other types of national survey instruments and data bases. Research conducted by our company, and other national studies, indicate that while an average of \$65 or so is spent on each shopping trip for those who are spending, only \$20 to \$30 is spent per person on an entertainment trip.

Developers are well advised to

keep this in mind when projecting sales in their new venues. Remember, you are selling fun, not socks, underwear, or batteries.

LACK OF EXPERIENCE SOLVED

Many projects on the drawing boards, or those opened since 1996, now have a history upon which to construct economic and financial models. Still, the number of operating centers anchored by cinemas with more than one year of experience are

slim. A partial list of entertainment centers currently open is found in Table I.

We could go on and on regarding the background economics and demographics of these places and the formulas used to project attendance and sales. Suffice it to say, there are many variables which must be quantified, qualified, and rolled into a good story to make these centers work. Some of these include:

- Market determination and extension- (i.e., how far will a consumer travel to go to a 24-screen stadium seating venue)
- Urban vs. suburban location
- Tourist vs. resident support
- Size of cinema (number of screens, number of seats, square footage)
- Cross-over of activities undertaken in one trip (dinner and movies, dinner and a nightclub experience, game center visit and dinner)
- Square footage devoted to:
 - Food and beverage
 - Retail
 - Entertainment

The experience at the 10-odd centers that have made it in the marketplace have provided parameters for market reach and penetration factors, trip-return rates, customer profile, income variables, and other market forces predictive of success for a retail/entertainment center.

TWO MODELS

For this comparison, I choose to compare one of California's successful retail/entertainment centers and the average factors for TrizecHahn Centers' major market shopping center portfolio, which includes 24 centers. Factors for the two examples are set forth below.

The Westlake Promenade in Westlake, California opened in 1996 on a 19-acre site smack dab in the middle of one of the most affluent markets in the United States. Anchor tenants include a 25,000 square foot Bristol Farms gourmet grocery; a 35,000 square foot Mann Theater; a 24,000 square foot Club Disney; Barnes &

Noble and Pier One Imports. Caruso Affiliated Holdings owns and operates the center. The summary characteristics of the project, according to president Rick Caruso, are found in Table II.

The relatively low development cost (\$205 per square foot) is critical to the center's economic vitality. Some early iterations of retail/entertainment centers cost upwards of \$450 per square foot. Tenants must earn in excess of \$450 per square foot in sales to approach a rent which will generate even a 10 percent return to the developer.

The center is extraordinarily successful. At any hour of the day or evening, the center is crowded with young mothers and their babies, families, and teenagers out for a stroll in the beautiful California weather.

With the help of William Speer, vice president of market research and financial analysis for TrizecHahn Centers, and published reports, we were able to get information (Table III) about averages for Trizec's major market portfolio, which includes 24 regional shopping centers, to use one developer's regional mall portfolio as a sample.

SUMMARY

Major differences between regional retail shopping centers and retail entertainment centers are summarized in Table IV.

While the two types of retail projects have several things in common (i.e., rents, CAM expense, development cost per square foot), their differences are striking and must be kept in mind when designing, financing and creating a successful project. Trip purpose, average expenditure, average length of stay, financing, security and parking requirements are not alike and must be kept in mind when planning new projects. **SCB**

Table III. Average characteristics for TrizecHahn's portfolio

| | |
|---|----------------------------------|
| Average Center Size | 1,010,000 sq. feet |
| Principal Orientation | Retail |
| Primary Market Area | 15.2 miles 650,000 population |
| Median Household Income of PMA | \$50,500 |
| Median Age of PMA Resident | 34 |
| Percent College Grads | 27 |
| Percent White Collar | 65% |
| Sales per square foot (portfolio average) | \$364 |

Table IV. Comparison of regional retail to entertainment retail

| | <u>Regional Retail</u> | <u>Entertainment Retail</u> |
|---|---|---|
| Anchor | Dept. store | Cinema, attraction, restaurant |
| Trip Purpose | Retail | Entertainment |
| Location | Suburban/urban | Suburban/urban |
| Tenant Orientation | Retail | Entertainment |
| Per Capita Expenditure | \$65 | \$25 |
| Average Length of Stay | 1.0 hr. | 2.0 hr. |
| Market Reach | | |
| Suburban | 15 | 10 |
| Urban | 25+ | 5+ |
| Rent Structure (Per Sq. Ft. per yr.) | \$36-72 | \$24-72 |
| Tenant Improvement Allowance | 0-\$100 | \$50-\$150 |
| Sales per sq. ft. (net of cinema) | \$200-400 | \$300-600 |
| Financing | Formulas established, readily available | Formulas not established, unconventional |
| Tenants | National, credit multiple locations | Some national, most local regional, many not credit |
| Security | Important | Critical |
| Parking Requirement | 4-5 per 1,000 sq. ft. | 10 per 1,000 sq. ft. |