

MARKET TRACKER FOOD & BEVERAGE IN SHOPPING CENTRES

# Food & Beverage in Shopping Centres – A Solution for the Structural Change of Retail?

For many years now, retail has been undergoing a complete transformation, mainly due to the steady increase of e-commerce. The effects of this change on retail properties can be measured by the increasing vacancy figures – despite retail real estate being one of the most diverse asset classes with high street properties, retail parks and shopping centres among others. Shopping centres, which mostly have many tenants from different industries and with various rental areas, are particularly vulnerable, as factors such as location and tenant structure can cause synergies between the tenants and at the same time a certain dependency on each other. When looking at the future of shopping centres, the terms “leisure shopping” or “shopping experience” seem to play a key role in paving the way towards the future of shopping centres. The extension of the Food & Beverage (F&B) sector or a focus thereon seem to be the method that can be put into practice the easiest in this context and has already happened in certain locations. Asset management and measures of restructuring have shown the first positive results – even if the pressure to refocus is strong in the ongoing battle for consumers.

In the latest Market Tracker “Food & Beverage in Shopping Centres”, Catella Research focusses on the question if a stronger focus on F&B in shopping centres is an adequate solution to the current crisis of shopping centres. For this purpose, we have chosen to do a comparative analysis of UK and Germany. Creating new urban places will become a strategic task of real estate investors for generating stable cash flows in the future.

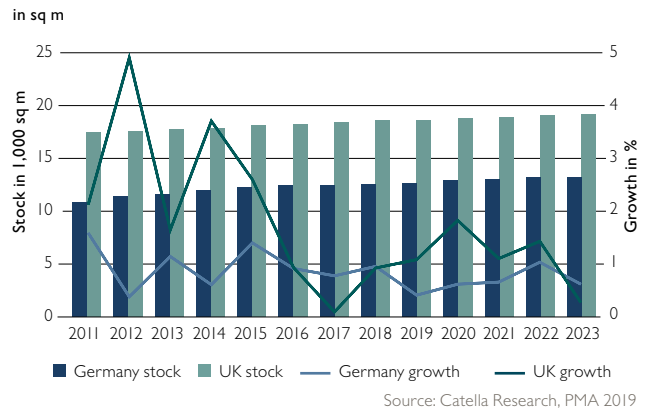
### Food & Beverage as a Future Model

The reduction of owner-occupied retail, an increase of multi-branch operators through displacement processes and strong internationalisation as well as the crisis of department stores – the extent of the transformation is broad and diverse. Despite development processes of retail operation types connected with changes of area stock and structure, stationary retail can only barely adjust to the new behaviour of customers. A constant focus on traditional products such as clothing, shoes and consumer electronics seems outdated and not very innova-

tive. A suitable modification of retail to the current consumer behaviour seems unavoidable.

To relieve the adaptation and improvement pressure, operators of retail properties react to the wishes of customers by creating or marketing a “shopping experience”. Shopping in its essential form is merely a part of the hybrid model of retail, entertainment, health and F&B range. Omni-Channelling is one direct consequence of the wave of modernisation with the goal of offering customers a better experience while shopping – something online shopping isn’t able to offer customers. Managers and owners of retail properties, especially shopping centres, are therefore increasing their share of F&B. In highly expensive refurbishment measures, further F&B space is added to existing shopping centres or included in brand new shopping centre developments with a large share of the GLA dedicated to leisure and F&B.

FIG. 1: SHOPPING CENTRE STOCK AND NEW-BUILD IN UK AND GERMANY



### F&B Experience in UK and Germany

This development can be measured in many countries with large shopping centres across Europe. In the UK and Germany in particular, the development towards F&B points in the same direction, though the two countries are still quite different. As shown in Fig. 1, the stock of existing shopping centre space in

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the UK is much higher than in Germany. The focus in the UK seems to be more on town centres, while in Germany, the “out-of-town” shopping centre seems to be a lot more popular. The concept of clustering F&B suppliers in central food courts is a model widely implemented in shopping malls in North America and was adapted by shopping centres in the UK more than in Germany at an early stage. An increased focus on F&B seems to be emerging as a central method for guaranteeing the future of shopping centres.

**Trend towards F&B**

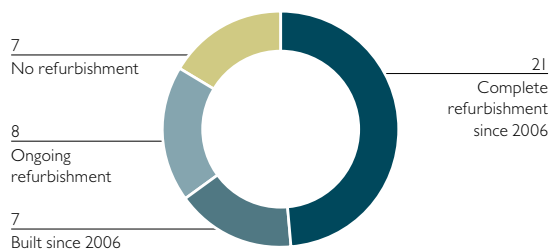
The stronger focus on F&B is also due to the fact that while retail is changing, the way we dine is also changing. What we eat, when we eat, where we eat and how we eat have all changed in the past few years and will continue to change in the future. We have identified several trends that are shaping F&B in shopping centres, now and in the future:

1. Experience shopping & dining: demand for a dining experience, from the food or beverage itself to the atmosphere, service, location; stronger segmentation into country/region-specific dining
2. Convenience & individuality: personal selection of ingredients of the food or beverage, at any time of day; large range of options based on personal and cultural preferences and nutritional requirements
3. Social Media: documentation of the F&B-experience on Social Media, self-presentation of personal dining style
4. Healthy & eco-friendly: demand for health & fitness-oriented food, vegan & vegetarian options, locally sourced ingredients, low levels of plastic waste

Furthermore, the actual relevance of a brand in F&B is much higher throughout all the mentioned trends. International coffee franchises as well as locally based chains profit from the establishment of a brand in a similar fashion. Brands are becoming more relevant in the F&B industry, especially with the ever-increasing degree of diversification; the range of chain restaurants/café brands is continuously increasing.

**Redevelopments & New Concepts**

FIG 2: FOOD COURT REFURBISHMENTS OF THE LARGEST\* SHOPPING CENTRES IN THE UK



\*N=43

Source: Catella Research 2019

Especially due to the increased value of a brand, many operators and owners are integrating F&B into their shopping centres with entire marketing and branding concepts, e.g. in food courts. Of the 43 largest shopping centres in the UK (larger than 70,000 sq m GLA), only 7 remain untouched in the past 12 years. The rest were either refurbished, were only constructed after 2006 or are currently being refurbished (Fig. 2). 28 of the largest shopping centres are extending their food courts in particular, while 18 are following a marketing concept for their food court, with a name and guides for customers to get the most of their dining experience. Intu Trafford Centre has the largest food court in the UK and markets their food court under the name The Orient with a marketing concept. Trinity Leeds have used a street market style approach with their project Trinity Kitchen, where occupiers rotate on a regular basis and its branding reflects this fast moving, casual offer. Westfield London and Westfield Stratford are among some of the other shopping centres which have successfully integrated a F&B-specific marketing concept.

In Germany, as shown in Fig. 1, the shopping centre structure is different, as only 19 shopping centres are larger than 70,000 sq m, as opposed to 43 in the UK. Only one of the largest German shopping centres is planning a major food court extension. But there are many smaller shopping centres planning larger food court extensions to increase their share of F&B space (Fig. 3).

FIG. 3: SHOPPING CENTRES WITH FOOD COURT OPENINGS IN GERMANY UNTIL 2022.

Shopping Centre, year of opening	Food-Court Openings 2016–2022						
	2016	2017	2018	2019	2020	2021	2022
Rhein-Center, Weiden 1972		★					
Europa Passage, Hamburg 2017		★					
Loom, Bielefeld 1977		★					
CentrO, Oberhausen 1996			★				
Lilien Carree, Wiesbaden 2007			★				
Sachsen-Allee, Chemnitz 1997			★				
MyZeil, Frankfurt a. M. 2019				★			
Hansa Center, Bottrop 2019				★			
Wilmsdorfer Arcaden 2007				★			
Aachener Arcaden 2008				★			
Königshof Galerie, Mettmann 2013				★			
Einkaufszentrum Cano, Singen 2020					★		
Rheingalerie, Ludwigshafen 2010							★
Überseequartier, Hamburg 2022							★

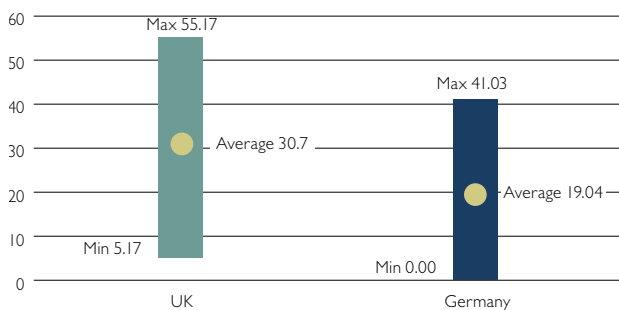
Source: Catella Research 2019

It seems that the focus was set on F&B and leisure extensions much earlier in the UK than in Germany. This is due to the fact that some of the largest shopping centres in the UK are in town centres, while most of the largest German ones are “out-of-town”. Shopping centres seem to be better integrated into the centre of

UK cities, where they play a central, essential part for the infrastructure of a town. A possible explanation for this is the fact that old Victorian buildings on UK high streets are not suited to the demand of international retailers and shopping centres, therefore, seemed the logical solution to creating an attractive city centre. In Germany on the other hand, shopping centres in the city centre seem to be more of an extension of the already lively high street and do not have as much relevance for the attractiveness and infrastructure of a city, as is the case in the UK.

**F&B Chains**

FIG. 4: F&B CHAINS IN THE LARGEST SHOPPING CENTRES IN THE UK AND GERMANY\*



\* Percentage of leading food chains with at least one store in each of the leading shopping centres in Germany and the UK. 100% = all leading national food chains have a store in this centre

Source: Catella Research 2019

The actual nature of the restaurants, cafés, coffee shops etc. in food courts is quite different in each country. In the UK, F&B chains are the most prominent actors in food courts and in the general F&B scene of each shopping centre. We identified 58 leading F&B chains with at least two restaurants or coffee shops in the 44 leading shopping centres in the UK. Costa Coffee has a store in 39 of those shopping centres, followed by Starbucks (32), Nando’s (32) and Krispy Crème (29). In Germany, 39 chains in the leading 19 shopping centres were identified. Nordsee (13), McDonalds (11) and KFC (8) emerged as the frontrunners here. As shown in Fig. 4, however, the F&B chain industry plays a much bigger role in the UK than in Germany. One of the largest shopping centres in Germany does not even have a single chain restaurant, while in the UK, a shopping centre has an average of 30.7% of all F&B chains.

In Germany, F&B chains are often seen as “system gastronomy” (Systemgastronomie) and suffers from quite negative connotations. While the quality of food or service in F&B chains compared to single restaurants is disputable in some cases, it has helped establish a food scene in the UK, which has not yet reached Germany. Many UK F&B chains in shopping centres have reacted to the aforementioned food trends and the altered needs of their customers. By establishing a brand representing certain aspects of dining, shopping centre visitors are attracted

to the F&B scene much more than before. Germany on the other hand, has not yet achieved this, as shown by the fact that fast food restaurants are the leading F&B chains in shopping centres. Healthy alternatives, social media-worthy options are still few and far between in German shopping centres.

The UK market, however, is slowly reaching a point of saturation, as F&B chain operators have expanded quickly over the last 3–4 years, buoyed by aggressive funding support and opening targets by their financial backers, as well as attractive landlord incentive packages in terms of rent free periods and capital payments. As a result, the UK is now at a point in its cycle where the F&B market is approaching the point of over-supply and restaurants in the UK (in all locations) are closing. This is exemplified by the restaurant closures in 2018 by the likes of Prezzo, Byron, Gourmet Burger Kitchen, Carluccio’s and Jamie’s Italian. A large number of these closures have been experienced in the mid-market sector, however, where the location and economic drivers are attractive and/or a point of difference can be created by the landlord, in terms of the environment the restaurant creates or adjacent users that it can bring in. In such cases, F&B demand from UK F&B operators and customers still exists.

**Summary:**

The function of the new generation of shopping centres in Europe is fundamentally different from the former generation. There is a stronger focus on creating an urban space and the quality of time spent. While in the past two decades this traditional POS (Point of Sale) has come under more pressure, by creating a sales offer along the same lines, the new generation of shopping centres is much more open: spatially, in the diversity of users as well as the use of digital supply and demand. Multi-functionality seems to be the mantra of current planning and F&B plays a key role in this repositioning. For investors, there are many significant opportunities in this structural change.

Though measures of repositioning at this level may seem ambitious at first glance, in many other cases, the widespread renovation and conversion of former industrial buildings into offices, residential properties etc. are proof of the success these measures may have. Even mixed-use or multifunctionality in this context can be implemented. The repositioning of the “Zollverein”, a former mining site located in Essen, Germany, and a UNESCO world heritage site since 2001, is proof of a successful repositioning, which is not only single-use. In this Omni-Channelling approach, a strong focus is put on F&B. While the Zollverein offers many museums, art galleries, historical & cultural centres as well as a swimming pool, F&B is not only a byproduct as several restaurants and cafés offering spectacular dining experiences can be found in many locations across the site. The same way the Zollverein is an example that real estate from a previous economic cycle can be reused to suit the modern customer, shopping centres will, at least in part, undergo a similar transformation.



TUNSGATE QUARTER, GUILDFORD	
Owner	Merseyside Pension Fund
Development Manager:	Queensberry
Architects:	Lyons + Sleeman + Hoare
Size:	7,450 sq m
Project cost:	£28 million
Originally Built:	1972

Source: Queensberry

### Shopping Centre Refurbishment for F&B – Example from the UK

The original shopping centre was entirely retail focussed with the exception of a locally operated café. In 2015, the vacancy rate was circa 40% and footfall was incredibly low with only a handful of the destination operators trading successfully.

The owner, alongside its development manager, obtained planning permission for a refurbishment of the existing centre which required full vacant possession and its closure for 18 months. The full project took approximately 36 months from start to finish.

The new centre, rebranded Tunsgate Quarter, opened in Q2 2018 with 53% of the new floor space allocated to non-retail uses including restaurants and a boutique gym. The new centre

was let to occupiers including The Ivy, Nespresso Café, Cosy Club, Pho and Fitness Space.

The change in focus of the centre away from its previous sole retail use encouraged premium retail occupiers including Oka, The White Company and Lululemon to also open stores.

Pre-refurbishment, the centre void rate was rising and the income and value for the owner was falling. Post-refurbishment, the centre is now approx. 80% let, with a rental value improvement of almost 3x the previous income.

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