



Food and beverage

A solution for
shopping centres?



Foreword



The retail industry has been the subject of substantial change in recent years. The current structure of the industry was unforeseen just a decade ago when the answer for greater sales was more floorspace.

While this is still a significant part of retailers strategy, with the advent of multichannel retailing there are now numerous avenues open for retailers to expand the top line. BCSC has highlighted the evolution of the sector with publications focusing on multichannel retailing and more recently the degeneration of the high street. However the industry continues to evolve in a number of ways and the food and leisure sector is no different.

With previous BCSC research focusing on technology and changing consumer attitudes, this report addresses the role of food and beverage (F&B) within shopping centres. F&B has become viewed by some within the sector as a possible solution to the challenges of high vacancy rates. By giving 'recession proof' F&B operators more units, landlords can reduce empty spaces within their centres, mitigate rates charges and increase rental income. The proportion of F&B units within shopping centres has grown exponentially in recent years and the diversity of offers available to consumers has strengthened the industry. Today new centres are being designed with a greater focus and emphasis on F&B while existing centres are converting former pure retail units to F&B.

This report seeks to understand the truths behind F&B in centres and dispel some of the myths, while giving a clear overview of the challenges within the industry. The demographics of each individual

area must be carefully considered and understood, and the overall proportion of F&B to pure retail needs to be evaluated. Securing the value of an asset and providing an attractive opportunity for investors cannot be achieved by simply providing a one-size-fits-all quota and expecting it to drive value. This report discusses these dynamic issues at hand.

If shopping centres are to remain the focal point within communities, then they must reflect the needs and wants of the consumer. The statement by some that F&B is close to recession proof may indicate an over reliance on this sector of the industry, an option which should not be overplayed. Through expert analysis and the consultation with leading members of the F&B and retail property sectors this report is essential reading for anyone that seeks to understand the changing face of retail property.

A handwritten signature in blue ink, reading 'Tom Meager'.

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Executive summary

There appears to have been something of a rush towards increasing food and beverage (F&B) spaces within centres in recent years and many within the industry appear to view F&B as a major opportunity.

In many cases, the impacts of increasing F&B are still to be fully appreciated and a number of centres have indicated that it is simply too early to tell. Nevertheless, there is evidence in this report to suggest that adding F&B 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.

40%

Approximately 40% of Spaniards were eating at 2.50pm and about 30% at 9.30pm. Conversely, at no point in the day were as many as 20% of Britons eating.



The opportunity

Consumers are eating out more often than in previous years¹. In addition, mealtimes are no longer conventional or clearly defined with people eating often and quickly throughout the day. According to *The Economist*, a study² comparing Britain and Spain found that approximately 40% of Spaniards were eating at 2.50pm and about 30% at 9.30pm. Conversely, at no point in the day were as many as 20% of Britons eating. This behaviour presents an opportunity for F&B operators to be able to spread trade across the day from breakfast, through lunch and into the evening.

In terms of different types of F&B, coffee and sandwich shops have the largest market share at 30% of the going out market³. The fastest growing category was 'fast casual' dining (sit-down dining with counter rather than at-table service). According to figures⁴, the fast casual sector has seen visits rise by 0.9% and sales increase by 1.7% in the year ending 30 September 2013. In addition, since 2009 this sector has seen a compound annual growth rate (CAGR)⁵ of 2.1%. It appears that the mid-priced fast casual sector is attracting cost-conscious diners who want more than a 'quick service' / 'fast food' experience.

In terms of demographics, young adults eat out most frequently. 2013 data shows that 75% of those aged 18-24 and 76% of 25-34 year olds had eaten out in the past two weeks. This compared to an average of 67% of all adults. In addition, spend per meal had

increased from £12.30 to £13.30. In terms of the type of F&B categories, about a fifth of fast casual diners are under 24 years old, attracted by the informal atmosphere and keen to achieve value for money.

F&B space within shopping centres

Analysis of floorspace data⁶ indicates that 8% of units within shopping centres are allocated to F&B usage. This proportion of space for F&B rises in larger destination centres to around 15%. When Savills' managed portfolio is analysed, the total net floorspace being analysed came to 16.7 million sqft. Of this, 1.38 million sqft was apportioned to F&B – again 8% of the total. There has been a significant amount of reconfiguration from retail to F&B use in centres in recent years. Conversion from A17 to F&B usage in 2009 stood at just over 700,000 sqft; however this increased to a peak of just under 3 million sqft in 2011 dropping to 1.7 million sqft in 2012.

Failure rates for F&B operators

In terms of failure rates for F&B operators, those incorporated in 2010 were more than twice as likely to have failed in the first year compared with those incorporated in 2008 – and even more likely to fail in 2012. The credit crunch was at its height in 2010 which led to a dramatic slowdown in consumer spending. In addition, the economic downturn allowed a number of fledgling businesses to emerge and this will have led to a more competitive environment in recent times along with an increase in the likelihood of new companies failing within the first couple of years.

Dwell time and F&B

The inclusion of F&B in centres is often justified by the belief that it leads to increased dwell time and therefore growing consumer retail spend. Analysis of dwell time data (provided by Path Intelligence)

1 QuickBite survey, Horizons, (July 2012).
 2 Behaviour change and the temporal ordering of eating practices: a UK-Spain comparison. Southerton D., Díaz-Méndez, C. and Warde A. International Journal of the Sociology of Agriculture and Food 19, no. 1(2012): 19-36.
 3 Taste of the Nation report, Deloitte, (2012).
 4 Eating out is the new staying in, Marketing Week, (19 December 2013).
 5 Compounded Annual Growth Rate (CAGR) is a method used to provide a constant rate of return over a particular time period.
 6 Callcredit Information Group.
 7 The Town and Country Planning (Use Classes) Order 1987 (as amended) puts uses of land and buildings into various categories known as 'Use Classes'. In broad terms class A1 covers shops, retail warehouses, hairdressers, undertakers, travel agencies, post offices, pet shops, sandwich bars, showrooms, domestic hire shops, dry cleaners, funeral directors and internet cafes.

challenges this assumption. F&B may increase total dwell time however it does not directly impact on dwell in retail units. Indeed, the research has been able to identify that including the wrong type of F&B can actually have a detrimental effect on the amount of time visitors spend in retail outlets⁸.

The report establishes (from the Path Intelligence data) that between 15% and 45% of centre visitors use F&B outlets (of all types). However, there is a substitution effect among some F&B customers, some people eating in shopping centres tend to replace visiting a retailer with a food service outlet – diners shop less than the overall average based on dwell time.

This substitution effect is more pronounced with a more sophisticated F&B offer that includes at-table service restaurants. This type of F&B outlet increases overall dwell time in the centre only because the dining occasion takes more time. Diners may spend additional time in centres overall, however longer dwell time does not mean they are always spending this additional time in retailers.

Selection of F&B operators – getting the mix right

The selection of F&B offer must always take into account visitor demographics, shopping occasion and the competitive F&B in the locality. Regional destination centres will have greater scope for a variety of F&B formats. Shopping centres based in the heart of cities may struggle to compete if there is a well-established F&B offer in the city centre itself, especially outside of core retail trading times. Equally, city based centres such as Cabot Circus, Trinity Leeds and The Oracle in Reading have flourished in an environment where the pre-existing F&B offer was relatively weak. Schemes with convenience-led shopping tend towards

shorter dwell times and lower spend as shoppers often have a more targeted budget. Consequently, the F&B offers within these locations are more likely to be of a coffee shop / quick service nature.

F&B from a regional perspective

There are a number of food concepts that have developed and succeeded on a regional basis and there seem to be few barriers to concepts moving around different areas of the country.

The exception to this is London which is quite different to the rest of the UK. London has a very unique population with a variety of cultural and ethnic diversity. This creates a demand for an equally wide range of food service offers. London sees greater levels of socialising after work, leading to some blurring between eating out occasions and the average working day.

The F&B landscape outside the capital is very different. As in retail, a concept that is successful in London is not guaranteed to gain traction and acceptance elsewhere in the UK. The demographics of any given area must be carefully considered before targeting new markets; the UK is a nation with unique regional diversity. Local businesses that operate without a presence in London are not unsuccessful – business must think locally and ensure they are servicing local needs. F&B concepts developed on a regional basis may enter the London market successfully, however this is not always the case. The key point is that operators should take these regional differences in behaviour and the competitive context into account.

The economics of foodservice

The foodservice and retail business models differ fundamentally. It is physically impossible to eat all day long whereas shopping can take place in multiple retail outlets over a

75%

2013 data shows that 75% of those aged 18-24 and 76% of 25-34 year olds had eaten out in the past two weeks.



F&B can add to the overall centre experience and can serve as a ‘place setter’ – creating an enjoyable space where people want to spend their time. It just needs better integration.

⁸ Based on analysis of consumer tracking data provided by Path Intelligence.

15%+

It seems unlikely F&B will increase beyond an average of 15-20% of floorspace in larger centres.



prolonged time period. Once the relatively high costs of fit out for F&B units are factored in it is easy to see why most F&B will struggle to match the potential rental income of a similar A1 retail space. Consequently, the majority of F&B operators will not be able to match the level of A1 rents.

While A3 (F&B) rents may be lower, shifting to A3 usage does not always result in a lowering of an asset's value. It can impose short term costs when reconfiguration of space is required however these can be offset by the stability of longer leases and better yields (although a note of caution is raised on lease duration in the following section).

Length of leases

The capital expenditure by F&B operators when they open a new outlet is high compared with retail. F&B companies want to depreciate their investment over a longer period of time. Therefore, they are often looking to sign long leases of 15, 20 or even 25 years. Presently, many landlords are willing to offer these terms. However, landlords need to be confident that those food service brands have sufficient vision and flexibility to develop and meet changing consumer needs over the term of the lease.

The branded restaurant market (multiple outlets using the same format) is predicted to grow from £16.4 billion in 2013 to £22 billion in 2018⁹, accounting for 43% of the eating out market by value in 2018. This may reduce the diversity and choice of operators that a centre can attract.

Long term commitment to larger scale branded restaurant operators may unbalance the business relationship in favour of the F&B businesses. Ensuring a good mix of branded and smaller independent operators together with carefully structured lease terms could become increasingly important.

Future space for F&B

For larger schemes, there must be a balance between retail, F&B and leisure – all have a part to play and can be mutually supportive. Given this, based on current industry opinion and combined with development pipeline analysis¹⁰, it seems unlikely F&B will increase beyond an average of 15-20% of floorspace in larger centres, albeit this is a level that would not have been considered viable 10 years

ago. In addition, with recent legislation introduced whereby planning permission is not required for change of use from A1 to A3 for the first two years, this may help keep F&B floorspace at a significant level.

Foodservice and the evening / night-time economy

A leisure offer, typically a cinema, is required if a centre wishes to attract visitors well into the evening and night-time. Overall, F&B has limited potential to regenerate night-time economies through a presence in shopping centres, particularly when the leisure element is absent. Indeed many retailers consulted believed that increased operating costs with later opening, to complement a F&B/leisure offer, outweighed the benefits in either footfall or sales.

Integration and management of F&B within shopping centres

The analysis points towards a need for better integration of F&B into centres' overall offer. F&B can add to the overall centre experience and can serve as a 'place setter' – creating an enjoyable space where people want to spend their time. Given that visitors are already spending their time within centres, there must be an opportunity for better cross-promotion between retail and F&B.

There are indications that F&B needs better integration within the overall centre proposition and its strategic management. Landlords are bringing expertise in-house by recruiting people with foodservice backgrounds. However, these new recruits may have relatively little experience of retail, creating the risk that F&B becomes an isolated business unit. This highlights the need for a multi-disciplinary approach when managing and developing the F&B offer. It should not be considered in isolation.

The overall question posed in the title of this report: 'Is food and beverage a solution?' seeks to address whether F&B can reduce the number of voids in centres and shape the future of the industry going forward. The answer to this rather daunting challenge is no. But if the question is rephrased to ask whether F&B can contribute to the future shape of the industry, then the answer is a resounding yes.

£22bn

The branded restaurant market is predicted to grow from £16.4 billion in 2013 to £22 billion in 2018.



⁹ Branded restaurant market to reach £22bn by 2018, Hospitality & Catering News, (27 June 2013).

¹⁰ Property: Dining out on European retail, JP Morgan Cazenove, (12 March 2014).

1. Introduction

There has been a steady change in consumer behaviour regarding eating out, so much so that it has become part of our national culture. Food journalist Kate Spicer has observed: “If you look back a few years, eating out was not a cultural pastime. It was a very occasional, special treat. Now it’s become something like pop music or fashion that we all consume on a regular basis.” This is reflected in the growth in value of the sector – currently almost a third of all food expenditure is on eating out. It may have started as a marriage of convenience however F&B within shopping centres looks like becoming a lasting, mutually beneficial relationship.

When the problem of voids raised itself following the recession, F&B may have presented a useful stopgap solution for some. Anecdotal evidence suggests that a segment of F&B operators were keen to have access to the high footfall of centres while some landlords appeared to welcome the opportunity to fill vacant space with new occupiers.

Now, landlords have had time to reflect on F&B and its contribution. They have seen that F&B can work in centres at much higher floorspace levels than would have been offered traditionally. The impact of F&B in increasing dwell time has long been accepted. However, centre owners have realised that they are moving away from a model where the shopper is merely refuelled to one where F&B adds to the overall experience of the centre and helps to build engagement and loyalty.

The overall question posed in this report seeks to address whether F&B can help shape the future of the shopping centre industry going forwards. This report is intended to examine the changing role of F&B within shopping centres and to outline possible scenarios for its future development.

1/3rd

Currently almost a third of all food expenditure is on eating out



“If you look back a few years, eating out was not a cultural pastime. It was a very occasional, special treat. Now it’s become something like pop music or fashion that we all consume on a regular basis.”

Kate Spicer Food journalist

Source: Top French chef declares London capital of cuisine, The Telegraph – 15 January 2011



The research sought to explore the following:

- **Trends analysis:** how has the proportion of F&B changed within the retail environment over the last 10 years? How is it likely to change in the future?
- **The role of F&B within the shopping centre:** integration of F&B within retail environment; does it complement the retail offer? Does it increase the likelihood of increasing retail spend?
- **Proportionality and dispersion of space:** is there an optimal balance of F&B in a retail environment which contributes to its vitality?
- **Evening / night time offering:** can an evening F&B offer provide a salient argument for extending retail opening hours? What are the challenges in influencing retailers to remain open into the evening and encouraging F&B to take up space in the centre?
- **The contribution of F&B in enhancing the value of a centre:** how can we evaluate the added benefit of additional footfall, dwell time, etc.?



It may have started as a marriage of convenience but food and beverage within shopping centres looks like becoming a lasting, mutually beneficial relationship.

In terms of methodology, there were four key workstreams for the research:

1. Analysis of statistical information (Savills data as well as data supplied by Experian GOAD and Callcredit Information Group)
2. Desk research using published information sources (e.g. Property Week, Peach Report, Big Hospitality, etc.)
3. In-depth interviews with a combination of property owners, F&B operators, retailers, consultants and industry commentators
4. Case studies

The first stage involved analysing statistical information. The research explored the proportion of floorspace currently taken up by F&B within Savills' managed shopping centre portfolio. This portfolio accounts for over 10% of the shopping centre market and provides a snapshot of the current F&B apportionment in this segment.

Data from GOAD was then interrogated to analyse over 17,000 retail properties across the UK. This helped to determine the extent to which F&B within retail has changed over a specific time period. Information provided

by Callcredit Information Group (providers of retail and leisure intelligence) was also explored to look at the proportion of F&B within the current retail environment.

Information was then gathered from numerous property and category-specific publications to identify current trends in F&B and their likely impact on the wider retail landscape. Examples of publications included *Property Week*, *Shopping Centre Magazine*, *Peach Report*, *Retail Gazette* and *Horizons* among others. In addition, annual reports as well as transcriptions from presentations made by the various owners were examined (please see Appendix 3 — bibliography).

The final stage involved speaking with key figures within the property and F&B sectors to discuss various issues in more detail. Companies and individuals included property owners, F&B operators, retailers and industry experts.

It should be noted that certain retail property types were excluded from the research. For example transport hubs were not explored in detail as these serve a captive audience for which shopping and eating are an ancillary activity. In addition, retail parks (although forming a significant part of the retail economy) were not explored as F&B

There are indications that F&B needs better integration within the overall centre proposition and its strategic management. Landlords are bringing expertise in-house by recruiting people with foodservice backgrounds.



17,000

Data from GOAD was interrogated to analyse over 17,000 retail properties across the UK.



provision is still relatively underdeveloped in these locations and thus made it difficult to draw any meaningful conclusions.

Also not included in the research was retailers' use of F&B within stores as the offer is often influenced by the retail store brand and this creates a sub-section of the market that is very fragmented and does not lend itself to broader analysis. The diversity of locations for in-store F&B offers further exacerbates this issue.

Finally, the steering group decided that the focus of this exercise should be on the key stakeholders within the F&B and retail

environment. Consequently the views of consumers have not been included within this research. However it is acknowledged that there have been significant changes both in eating habits and in attitudes towards food quality, nutrition and provenance; all of which have led to the development of foodservice provision and impacted significantly upon the F&B sector.

We would like to acknowledge the contribution of the various participants within this research and thank them for their support. (A list of contributors is included in Appendix 2.)



A diner is more likely to shop than a shopper is likely to dine, but the diner's shopping may be less than the average.

2. What do we mean by F&B?

The initial stage of the research determined to understand what is meant by F&B and also which meal periods are being covered within shopping centres.

Four types of F&B were identified that cover the various meal times and operators within the sector. This is not an exhaustive list of eating out categories however they cover the main sectors likely to fit within shopping centres. It should be noted that both the fine dining and bars categories were excluded from this research as these currently form only a small fraction of the F&B provision within shopping centres. The categories are as follow:

Casual / fast casual

Restaurants that have a quality proposition on food and an emphasis on value. This often involves having focused menu options and / or more informal service arrangements than in other restaurants. Some provide at-table service (e.g. Pizza Express, Wagamama) with others offering a less formal service / assisted-service (e.g. Nando's).

Quick service

Food usually pre-prepared and ready to take away (e.g. McDonald's, KFC, Subway, etc.)

Coffee break and relax

Sit-down or take-away, mainly serving hot drinks and light snacks.

Treats

Ready-made snacks which are taken away to eat (e.g. Millie's Cookies, BB's, Auntie Anne's, etc.)

The average day can be segmented into a number of day parts with each having its own specific eating behaviours and consumer requirements. In the morning, as would be expected F&B revolves around coffee and breakfast. At lunchtime, speed is often essential so that people can grab food quickly before carrying on their day. However, fast casual is also popular at lunchtime and within centres where there is a greater retail and F&B offer (and therefore increased dwell time), and lunchtime can stretch well into the afternoon. There are also cases where younger people use the mid to late afternoon to socialise once the academic day has ended.

50%

Approximately 50% of profits for F&B outlets derive from the dinner eating occasion.

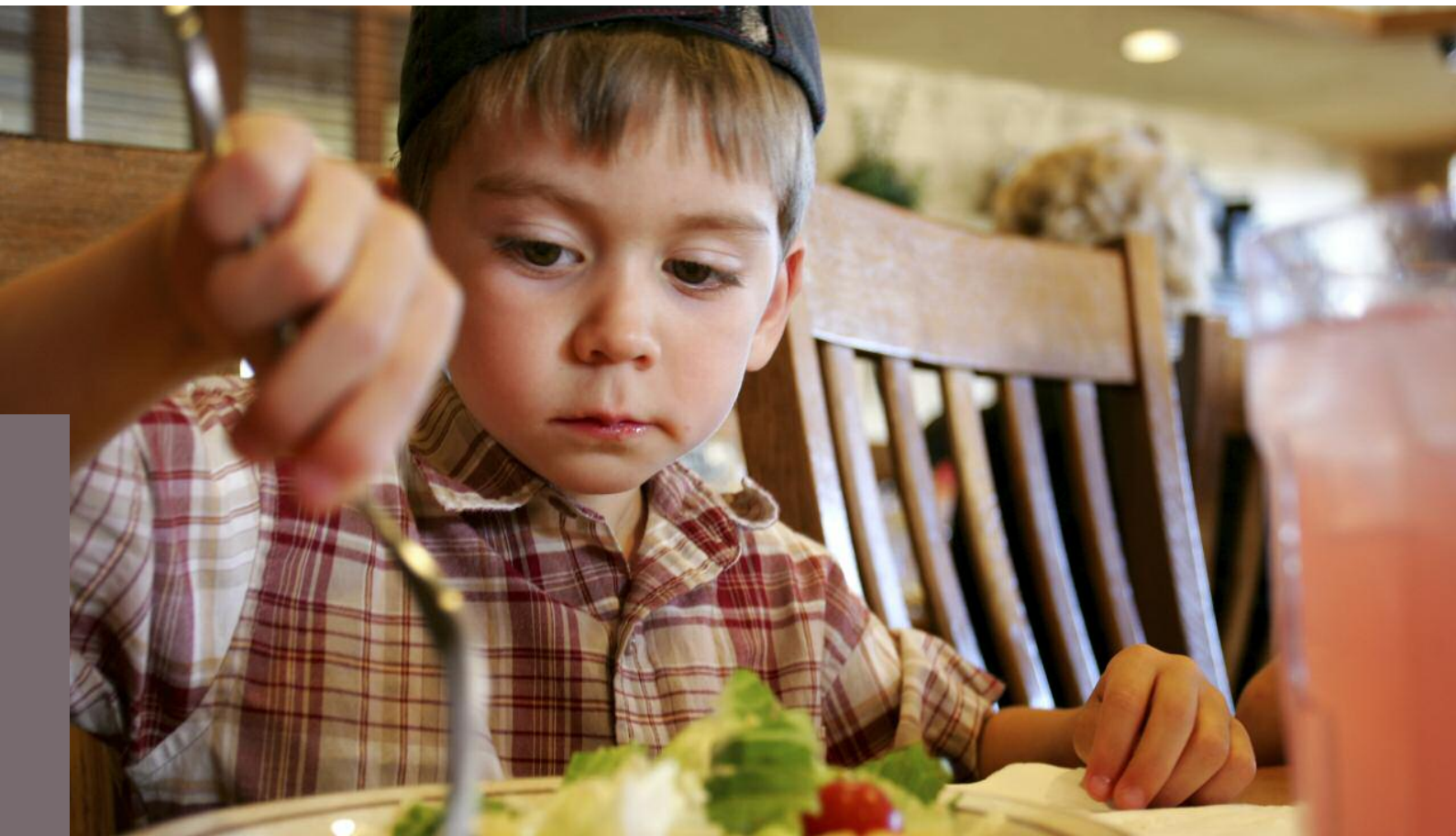


Given the food service business model, the most successful F&B operators have an offer that can stretch across multiple day parts and eating occasions.



In the evening, diners are prepared to invest more time in the eating occasion which means F&B can be a more sophisticated and profitable offer (on average approximately 50% of profits for F&B outlets derive from the dinner eating occasion). In addition, F&B that sits within a wider leisure offer (more specifically a cinema) is more likely to capture this evening trade. The F&B operators consulted said they were most attracted to locations with close proximity to a cinema for these reasons.

Given the food service business model, the most successful F&B operators have an offer that can stretch across multiple day parts and eating occasions. This catering across different day parts has implications for the type of space required. F&B needs space that can be flexible enough to serve customers at different meal occasions. For example, the ambience and set-up for a morning breakfast offer is likely to be very different for lunch where speed of delivery is paramount compared with late afternoon / early evening when a more relaxed offer



The ambience and set-up for a morning breakfast offer is likely to be very different for lunch where speed of delivery is paramount.

prevails. Operators such as Carluccio's have been very effective in ensuring that their space can adapt to meet the needs of consumers at different day segments. The fact that they also have a retail offer in their outlets is a further strength in their overall proposition.

In addition, the ability to use the same space and modify the offer to cater across different day segments gives greater profit opportunities through longer trading hours and repeat visits. Creating a positive experience for centre visitors is crucial to attracting footfall and generating loyalty and repeat visits. An attractive F&B offer undoubtedly enhances the visitor's experience. Furthermore, it serves as a bridge between shopping occasions so that visitors are retained within the centre when they feel the need for food and refreshment. In terms of valuation, measuring the specific impact of F&B on a scheme is dependent upon such factors as size of scheme, footfall, shopper demographics and the competitive environment. Suffice to say, a relatively

poor F&B offer is more likely to have a negative impact on valuation.

The type of F&B offer that is likely to add greatest value to most shopping centres is the one that delivers the best possible customer experience and spend, within a relatively short time period. A key metric for food service is the revenue generated per minute. This metric is a function of the price charged for food, divided by the dwell time within the outlet. This value increases from a relatively low base for fast food type operators through to counter service and fast casual dining.

There will always be exceptions to this model, however fast casual dining formats are very effective in charging a relatively high price for their product while being able to have a high throughput of customers. Significantly, the revenue per minute for more formal, table service dining drops relative to fast casual unless these outlets are able to attract customers over the 'dinner' eating occasion. Dinner, which extends well

8pm

For most centres that cease retail trading before 8pm, fast casual dining represents the best type of F&B offer to attract into the centre.



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¹¹ UK casual dining market dominated by Nando's, CompaniesandMarkets.com, (14 January 2013).

into the evening, can be a critical day segment for restaurants as it can include significant, high-margin alcohol sales. For most centres that cease retail trading before 8pm, fast casual dining represents the best type of F&B offer to attract into the centre based upon the combination of turnover, return on investment (ROI) for operators and the quality of experience generated for visitors.

According to research by Companies and Markets¹¹, fast casual is priced to enable young consumers to dine out, bridging the

gap between fast service (with an average spend per trip of £3.47) and more full-service dining (average spend £9.46).

Ultimately, as the eating habits of consumers have changed, successful F&B offers within shopping centres have adapted and are responsive to this. Change is occurring and shopping centres will need to be even more flexible as habits continue to evolve.



Operators such as Carluccio's have been very effective in ensuring that their space can adapt to meet the needs of consumers at different day segments.

3. The relationship between F&B and retail

There are some fundamental differences between F&B and retail that are worth noting. There is a biological imperative to eat – while we may not always eat the standard three meals a day, biology drives us to eat throughout the day. It is this same factor that also limits us in the amount of food that we can consume. Jonathan Doughty of Coverpoint sums this up: “People can go out and spend until they run out of money but there is only a finite amount that they can eat during the day.”

Retail has undergone a period of fundamental change due to the impact of online, multi-channel models and the recession. Foodservice has not been affected in the same way – indeed it is one of the few industries that has stood up well during the recession as Peter Martin of CGA Peach commented: “87% of the population eat out, 44% of the population eat out every week and the market has been pretty flat all the way through the recession, so it’s about as recession proof as anything at the moment.”

F&B from a regional perspective

There are few, if any, significant differences in F&B on a regional basis. There are a number of food concepts that have developed and succeeded on a regional basis and there seem to be few barriers to concepts moving around to different areas of the country. The exception to this is London which is quite different to the rest of the UK.

London is one of the world’s greatest cities when it comes to the quality, variety and volume of F&B outlets. It has benefitted from a rich mix of cultures that includes foods from around the world. Consumers have become used to an ever-changing mix of restaurants and food outlets. This dynamism within London-based foodservice appears to be a major factor in its appeal and growth. Indeed, multi-Michelin starred chef Joël Robuchon identified London as “very possibly the gastronomic capital of the world ... because it’s only in London that you find every conceivable style of cooking.”

87%

87% of the population eat out, with 44% eating out every week.



“Very possibly the gastronomic capital of the world... because it’s only in London that you find every conceivable style of cooking.”

Joël Robuchon Michelin starred chef

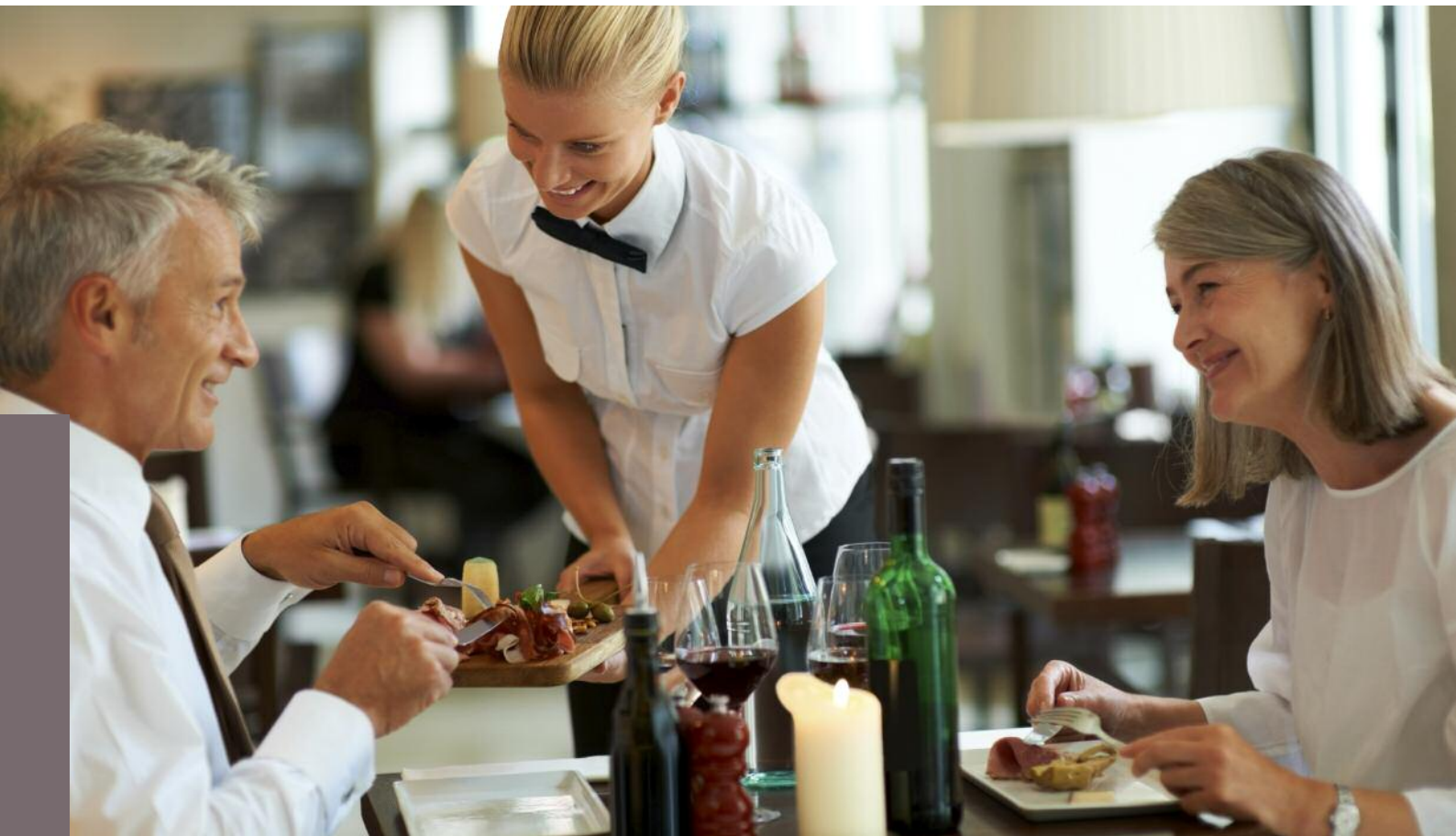
Source: Top French chef declares London capital of cuisine, The Telegraph – 15 January 2011



London has a very diverse population both culturally and ethnically. This creates a demand for an equally wide range of food service offers. There are other behavioural differences – for example there are much greater levels of socialising after work. This can lead to some blurring between eating out as a specific activity and simply incorporating it into the average working day. Another difference is the relatively high numbers of people that commute into the capital when compared with the rest of the UK. High demand on the transport

infrastructure means that journeys are often staggered leading to extended and less well-defined eating occasions / day segments – breakfast may merge into lunch, afternoon into evening dining, etc.

The F&B landscape outside the capital is very different. This is not to say that F&B concepts developed outside the capital are any less successful, they just operate in a different environment – their customers have not necessarily been exposed to the breadth of offer available in London. As in



The F&B landscape outside the capital is very different. This is not to say that F&B concepts developed outside the capital are any less successful, they just operate in a different environment.

“(London) is much edgier as a dining out market than if you went to somewhere like Manchester – quite a funky town – where they are still looking more for chain restaurants. I think it will be a good few years before the concept graduates far out of central London.” **Jemima Bird** Marketing Director of Tragus Group

Source: Families get a taste for fast casual dining – Marketing Week, 02 August 2012

retail, a concept that is successful in London may struggle to gain traction and acceptance elsewhere in the UK. F&B concepts developed on a regional basis may enter the London market successfully however there are examples of regional successes failing in the capital. The key point is that operators should take these differences in behaviour and the competitive context into account.

Success in London does not always guarantee that a concept will succeed nationally and vice versa. Demographics differ greatly throughout the country and without consideration of regional differences, failure may become likely.

The capital can be regarded as a hothouse environment where new foodservice concepts can develop and flourish. For example, fast casual Mexican concept Tortilla has established its reputation within London and is now expanding across the UK. Openings beyond the capital will

include Trinity Kitchen within the Trinity Leeds development, and a unit in the new Birmingham Grand Central station.

Jemima Bird, Marketing Director of Tragus Group (owner of Café Rouge and Strada) says that although fast casual has taken the industry by storm, there needs to be caution when expanding outside of the capital: “(London) is much edgier as a dining out market than if you went to even somewhere like Manchester – quite a funky town – where they are still looking more for chain restaurants. I think it will be a good few years before the concept graduates far out of central London.”

Nevertheless, there are a number of F&B concepts that have developed without a London presence. Barburrito is an example of a successful concept that has been developed on a regional basis. Only once the concept has been proven in the regions has Barburrito entered the London market.

Like retail, consumers in London may be receptive to a particular F&B format and offer that will struggle to compete outside of the capital.





There are a number of F&B concepts that have developed without a London presence. Barburrito is an example of a successful concept that has been developed on a regional basis.



What works within the context of a large regional shopping centre may not necessarily work within secondary shopping centres within the regions. In addition, F&B offers can differ markedly within a major town or city centre compared with a shopping centre in the same location.

In summary, while innovation is always needed, caution should also be exercised when adopting a new concept that has only been proven in London and has yet to expand into other regions. Like retail, consumers in London may be receptive to a particular F&B format and offer that will struggle to compete outside of the capital.

F&B concepts developed on a regional basis may enter the London market successfully however there are examples of regional successes failing in the capital.

4. Current usage of F&B in shopping centres

In order to gain a robust view of the current proportion of F&B usage within retail, a number of available sources were explored.

In the first instance the amount of floorspace currently under management within the Savills portfolio was analysed. Savills manages circa 10% of the shopping centre market and is a top three retail management agency. Consequently it was felt that this would provide both an indicative view and a useful initial benchmark. The total net floorspace being analysed was 16.7 million sqft. Of this, 1.38 million sqft was apportioned to F&B – 8% of the total.

Independent sources were then explored to see how this figure compared. At the 2012 BCSC Conference, in a presentation entitled *A View From The Hill: Emerging Trends in Foodservice and Opportunities for Shopping Centres*, Jonathan Doughty of Coverpoint (a leading consultancy practice in commercial, leisure and retail foodservice) quoted a figure of 8% gross leasable area (GLA).

Finally, data provided by Callcredit Information Group was explored. The

percentage of units apportioned to the categories described as ‘cafe and takeaway’ and ‘restaurant’ again totalled 8% which mirrors the 8% highlighted in the two sources mentioned previously. Figure 1 shows the proportion of units by different retail scheme types.

The proportion of cafe and takeaway and restaurant changes depending on the type of retail location. City centres have a greater proportion of units dedicated to F&B – approximately 11% – however there is a wider dispersal of units across a wider area within a city centre compared with the more compact nature of a shopping centre. Similarly, around 11% of units within large retail parks account for F&B usage. However as the number of units within retail parks is generally fewer, this means even a small number of F&B units can account for a larger proportion. When regional out-of-town shopping centres (including the Intu Trafford Centre, Westfield London and Stratford, Meadowhall, etc.) are explored the percentage of units accounting for F&B leaps to around 14%.

14%

The percentage of F&B units in regional out-of-town shopping centres is on average 14%.



Figure 1: Proportion of leisure units* by different scheme types

Category	All shopping centres	City centres	Large towns	Large retail parks	Regional out of town shopping centres
Café and takeaway	6%	7%	6%	8%	8%
Restaurants	2%	4%	2%	3%	6%
Café and takeaway / restaurants total	8%	11%	8%	11%	14%
Entertainment and hotels	8%	7%	6%	3%	0.8%
Pubs, bars and clubs	8%	7%	6%	1%	0.5%
Leisure total	24%	25%	20%	15%	15%
Retail total	76%	75%	80%	85%	85%
Total	100%	100%	100%	100%	100%

*Number of units only. Includes F&B.

Source: Savills analysis of Callcredit Information Group data.



12 *New River Retail Annual Report*,
New River Retail, (2013).

Indeed, during the interview process, it was noted that for newer schemes, demand for F&B had far outstripped the proportion of space originally apportioned. Conversely, within secondary shopping centres, this number can be significantly lower than the average.

A prime example of this is New River Retail which owns 23 shopping centres that are 'commodity-focused' on the grocery and value sub-sectors. F&B currently represents 3% of its portfolio¹². New River Retail however does state that there is potential to grow this rapidly expanding area.

Change of use to F&B

The amount of space apportioned to F&B within schemes has risen dramatically in recent years. To look at the extent of this rise, GOAD data was analysed which provides plans and information on over 450,000 retail occupiers covering approximately 3,000 town centre shopping areas, out-of-town retail parks and neighbourhood towns in the UK and Ireland.

Analysis of current F&B usage also highlights the extent of conversions to F&B use in the last few years. Figure 2 shows

Figure 2:
F&B lettings by floorspace
2000-2012

Source: Savills analysis of GOAD data
(Covers all types of retail locations.
F&B includes A3 / A4 / A5 units)

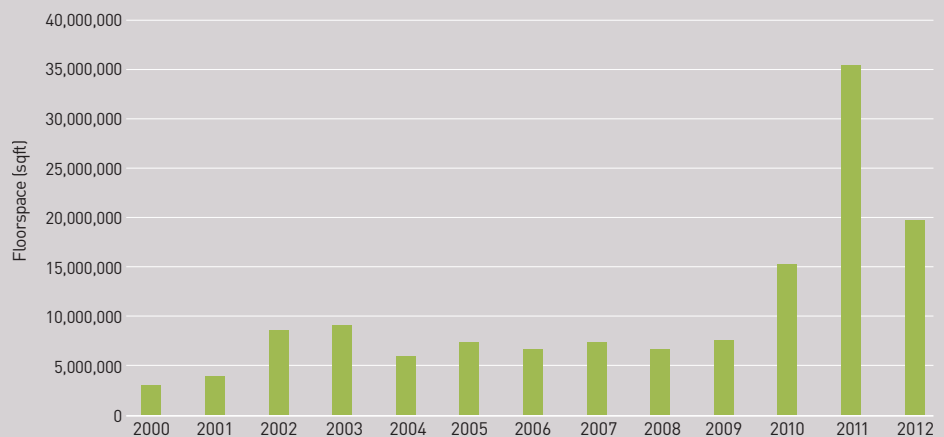
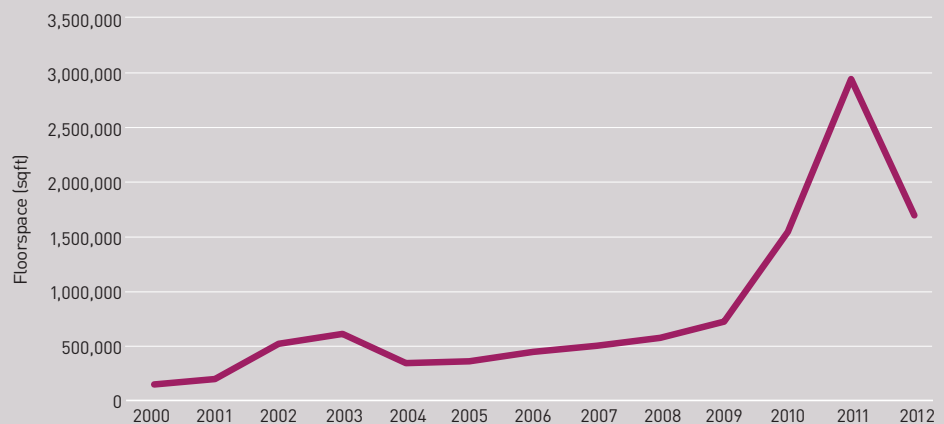


Figure 3:
Floorspace converted
from A1 to F&B use
2000-2012

Source: Savills analysis of GOAD data
(Covers all types of retail locations.
F&B includes A3 / A4 / A5 units).



The inclusion of F&B in centres is often justified by the belief that it leads to increased dwell time and therefore growing consumer retail spend. Analysis of dwell time data challenges this assumption.

“There is a real tendency for landlords to think that if retail isn’t working then restaurants will fix it. But you can’t always do this. Eventually you will see a dilution of trade for the restaurateurs.”

Martin Bloom Insight Retail Consulting

Source: Leisure moving in on malls – Peach Report, 19th February 2014

the amount of floorspace let to F&B between 2000 and 2012.

From 2010 onwards, there was a sharp increase from 7.6 million sqft in 2009 to just over 35.5 million sqft in 2011 – a near fivefold increase in just two years. The average unit size for A3 during this period remained relatively stable. However the average A5 unit size halved from 1,890 sqft in 2002 to 946 sqft in 2011. This can possibly be attributed to an increase in quick service / counter service operations which require less space (e.g. juice bars).

The increase in F&B is also reinforced when changes in use from A1 and A2 to F&B across the same period are analysed.

The amount of floorspace converted rose steadily over the last decade to just over 700,000 sqft in 2009 with another sharp increase to just under 3 million sqft in 2011 – an increase of more than four times the space.

Figure 3 shows a dramatic upward trend in conversion and lettings that reached a peak in 2011. The spike in both overall lettings and conversion to F&B can be attributed to a number of factors. For some

landlords, F&B was considered an easy solution to the issue of vacant units which hit the retail sector during the recession. Rationalisation of retailers’ portfolios and inactivity in their expansion plans during the recession presented F&B operators with an opportunity to gain access to locations that were previously unavailable. Consequently, vacant units (which may previously have been filled by retail) became occupied by F&B operators during 2010-2011. As David Harris of *Estates Gazette* states: “Converting shops into restaurants can seem an obvious problem solver for landlords. It’s all about market forces.”

However the revival of expansion plans by retailers post-2011 (combined with an improvement in both consumer confidence and economic activity) led to greater competition for space between both F&B and retail. In other words, those units which were let to F&B operators in the previous two years were now in demand from retailers once again. This increase in competition meant a net reduction in both conversions to A3 and in overall A3 lettings.

Also during this period, quick service operators underwent a period of expansion

3m sqft

In 2011, 3 million sqft of floorspace converted to F&B use.





with the quick service sector growing by 2.7% in 2008 and 5.1% in 2009¹³. The lower price of quick service meals, which averaged at £5.30 in 2009 (£7.32 lower than the average price of a meal in the restaurant sector), combined with an increased effort to introduce healthy eating options, helped this group weather the economic storm.

Changing shopping habits also led property owners to provide a greater quality of experience within their schemes in an attempt to lure the consumer away from online shopping. F&B has been a key factor in this strategy.

It is also conceivable that the Olympics led to a surge in provision of F&B particularly within London and the South East. However, the specific impact of the Olympics is difficult to quantify.

Ultimately there is a limited amount of floorspace that can be converted cost-effectively from retail to F&B. Recent estimates including BCSC's report on the impact of multi-channel retailing,¹⁴ suggests, that approximately 20% of

retail space is currently surplus to requirements. This raises the question of whether F&B can utilise this surplus and also whether too much F&B can have a negative impact. Consultant Martin Bloom of Insight Retail Consulting expresses his concerns thus: "There is a real tendency for landlords to think that if retail isn't working then restaurants will fix it. But you can't always do this. Eventually you will see a dilution of trade for the restaurateurs."¹⁵

It should be noted that the 2012 figures for both lettings and conversions to F&B are more than double the space compared with three years earlier. It is possible that the apparent rush to incorporate F&B into centres has slowed its pace, albeit to a more steady, less dramatic rate going forward.

However, the recent change in the law – meaning planning permission is not a requirement for change of use from A1 to A3 for the first two years – will help to keep F&B operators competing for space going forward.

¹³ *Survival of the fittest: the evolution of the restaurant industry*, Key Note, (30 June 2011).

¹⁴ *The Rise and Rise of Multi-Channel Retailing*, BCSC, (2012).

¹⁵ *Retail & Leisure Supplement*, Estates Gazette, (Spring 2014).

5. Failure rates of F&B operators

In terms of failures, figures from the Office of National Statistics and Red Flag Alert¹⁶ system by Begbies Traynor – the UK's largest independent practice of Corporate Rescue and Recovery specialists – show that the number of restaurant operators which were incorporated (i.e. registered with Companies House as a legal entity) in 2010 were more than twice as likely to have failed in the first year compared with those incorporated in 2008 – and even more likely to fail in 2012. This is shown in Figure 4.

Although the banks were bailed out in 2009, the credit crunch was at its height in 2010 which led to a dramatic slowdown in consumer spending. In addition, the economic downturn allowed a number of fledgling businesses to emerge. For example, the UK's independent coffee shop and café industry saw a 15% rise in new businesses opening between 2011 and 2013¹⁷. This will have led to a more competitive environment in recent times and an increase in the likelihood of new companies failing within the first couple

15%

UK's independent coffee shop and café industry saw a 15% rise in new businesses opening between 2011 and 2013.



Figure 4: Failure rates of restaurant operators between 2008-2012

Year	% of operators failing in the first year	% of operators failing in the second year
2008*	6.1	25.9
2009*	7.8	27.7
2010*	13.1	29.2
2011*	6.1	N/A
2012**	14.2	21.2

* Source: Office of National Statistics – figures only available up to 2011.

** Source: Begbies Traynor – covers companies described as Insolvent, Dissolved or Not Trading. Not split by property type.

'Restaurants' are as defined by Standard Industrial Classification (SIC) 2007 Code – 56101.

In terms of failure rates for F&B operators, those incorporated in 2010 were more than twice as likely to have failed in the first year compared with those incorporated in 2008 – and even more likely to fail in 2012.



¹⁶ Red Flag Alert is a business database containing over 7.5 million records on every business in the UK, from the sole trader through to limited and quoted companies.

¹⁷ UK sees 15% rise in independent coffee shops, Hospitality & Catering News, (04 December 2013).

21.2%

Operators incorporated in 2012 failing in their second year.

of years. However it is clear that, despite generally low levels of failure in the first year, many businesses of this type find the second year much more difficult.

From a regional perspective, a restaurant operator which set up in 2012 in the Greater London area was almost as likely to fail in the first year as an operator in

the Tyne & Wear area (13.8% and 15.0% respectively). However, the failure rate increased only slightly in Tyne & Wear in the second year (16.7%) while the failure nearly doubled in Greater London to 24.7%. This highlights how high levels of competition can make it more difficult for new businesses to survive and thrive.



A restaurant operator which set up in 2012 in the Greater London area was almost as likely to fail in the first year as an operator in the Tyne & Wear area.

6. F&B and the wider urban agenda

There has been much recent debate on the future of the high street and the relationship between shopping centres and more traditional retail. This subject area is complex and has been the subject of several recent high profile reports, including the Distressed Town Centre Property Taskforce report – *Beyond Retail*¹⁸. F&B certainly has a role to play in the reinvigoration of urban centres however it is not the answer in isolation. An increase in high street F&B provision is likely to be a by-product of more people being attracted to living in town and city centres.

New River Retail's Regent Court scheme in Leamington Spa has transformed a more fashion-oriented area into a food hub incorporating some of the major fast casual operators. This is now the town's principal restaurant and leisure destination. New River Retail adopted this strategy to transform Regent Court in response to high demand from restaurant operators. 2013 saw the successful opening of Nando's restaurant, the pending arrival

of Caribbean restaurant chain Turtle Bay, plus interest from a number of other food and restaurant operators. The void rate for the centre has dropped from 13.5% to 4%, indicating that the strategy and concept of a food quarter in the centre of Leamington has been successful.

F&B operators report a significant degree of resistance from urban planners towards F&B provision. In particular, there were reports that some planners tend to group all establishments selling alcohol together and that alcohol is almost always equated with anti-social behaviour. This appears to indicate a need for a more enlightened approach that differentiates between eating establishments and those with a greater focus on alcohol sales. There are other issues around strict zoning in some town centres that also mitigate against investment and development although it is not intended to discuss these issues within this report.

→ 4%

The void rate for the Regent Court has dropped from 13.5% to 4%.



“We’re now seeing competitive tension, with multiple offers for units... this competitive tension bodes well for rental growth... sales densities are also strong with... food and beverage up over £575 per sqft.”

Claire Barber Head of Shopping Centre Asset Management at British Land

Source: Whiteley Shopping Centre Investor Day presentation, British Land, 19 September 2013



Regent Court, Leamington Spa

¹⁸ *Beyond Retail: Redefining the Shape and Purpose of Town Centres*, BCSC, (29 November 2013).

7. The economic argument for F&B in shopping centres

“Our investment is huge, a typical restaurant would cost you anywhere between £600,000 and £700,000 to fit out – as a result, we want a long lease, 15-25 year leases... retailers are signing up for five year leases, but you know, they’re putting a bit of racking up and that it’s it – our investment is a lot more.”

Source: Gondola Group



Historically, F&B usage has delivered lower levels of rental income when compared with retail usage. Given this, if there was a choice between retail and F&B, retail units would usually be preferred. One landlord expressed this view as: “Caterers just cannot afford to pay what retail pays, that’s just how it is. The economics are very different, so if you give over more space (to F&B) you’re gaining more rental income overall but in comparison, if it had been retail space, then it’s a decline.”

Some interviewees however indicated that F&B operators are paying rents that are at parity with retail. In some cases, there is anecdotal evidence that food service is prepared to pay above A1 rates to secure space in a desirable scheme. As one international food operator indicated: “I suspect in most locations, you’ll probably find the restaurateur willing to pay more than the retailer. I think it’s certainly levelled out outside London.”

Some landlords are less convinced about this parity and think it can pose some difficult questions around the F&B occupier mix. This was touched upon in a previous section and highlights the difficulties involved in getting the right fit of operators. One landlord was quoted as saying: “The big chains such as The Restaurant Group (owners of Frankie & Benny’s and Chiquito’s) can afford to pay pretty big rents because of the size of their estates and their margins are strong. If you want the little independents in, then they can’t pay the same sort of money. As a landlord you have a dilemma in terms of your mix – do you go for the same old quality, consistent, predictable chains or do you vary the mix?”

Other landlords feel that the competition for space from F&B operators in prime locations is driving up overall rental values. Claire Barber, Head of Shopping Centre Asset Management at British Land outlined this in a recent presentation to investors: “We’re now seeing competitive tension, with multiple offers for units... this competitive tension bodes well for rental growth... sales densities are also strong with... food and beverage up over £575 per sqft.”

The impact of F&B on landlords’ lease profiles may also add value to the centre.

Landlords have an opportunity to include F&B on a range of short and longer term leases with the latter creating a better risk profile for asset managers. Indeed, many larger F&B operators would prefer long leases in order to recoup their capital expenditure in fit-out which is often significantly higher than in retail as one F&B operator interviewed described: “Our investment is huge, a typical restaurant would cost you anywhere between £600,000 and £700,000 to fit out – as a result, we want a long lease, 15-25 year leases... retailers are signing up for five year leases, but you know, they’re putting a bit of racking up and that it’s it – our investment is a lot more.”

Analysis of average rental values

The research conducted analysis on rental information based on a sample of Savills managed portfolio. This analysis was conducted by taking the leased area (in sqft) and calculating the cost per sqft for each occupier and then comparing retail occupier with F&B operators within a particular scheme.

The analysis of retail rents to premises under 5,000 sqft was restricted for a number of reasons:

- F&B operators (generally) take spaces under 5,000 sqft (and often less than 1,000 sqft)
- occupiers with a demise over 5,000 sqft tended to have lower average rents per sqft. Some anchor retailers had negotiated rental values that were significantly lower when compared with other retail occupiers and this created a skew in the average rental figures
- landlords would not be able to let spaces over 5,000 sqft to most F&B operators (possibly excepting pub / bar venue operators) so the research would not be making a like-for-like comparison.

The average rental values for retail and F&B within 17 different shopping centres was compared as at the start of 2014. This covered a total sample of 645 leases. These centres were quite varied both in terms of geographical location (ranging from the South East to Scotland) and their size / occupier mix. The results of this analysis

show that in the majority of centres, average rents for retail space is higher as shown in Figure 5.

Figure 5: Comparison of shopping centre average rents for retail and F&B outlets

Number of centres where average F&B rents higher	Number of centres where average retail (<5,000 sqft) rents higher
5	12

Figure 6 illustrates the relative differentials between average rents for F&B and retail space in 16 of the 17 centres under consideration.

Overall it was found that average rents for F&B were at parity or below the levels paid by retailers in similar sized spaces. Looking at the average rental differentials, the average differential showed that retail rents were 21% higher than F&B. F&B rents were higher than comparable retail spaces in only five schemes and could be said to be around parity (less than 10% difference) in a further two schemes. For the remaining 10 shopping

centres, the average rents paid by retailers were higher than F&B operators.

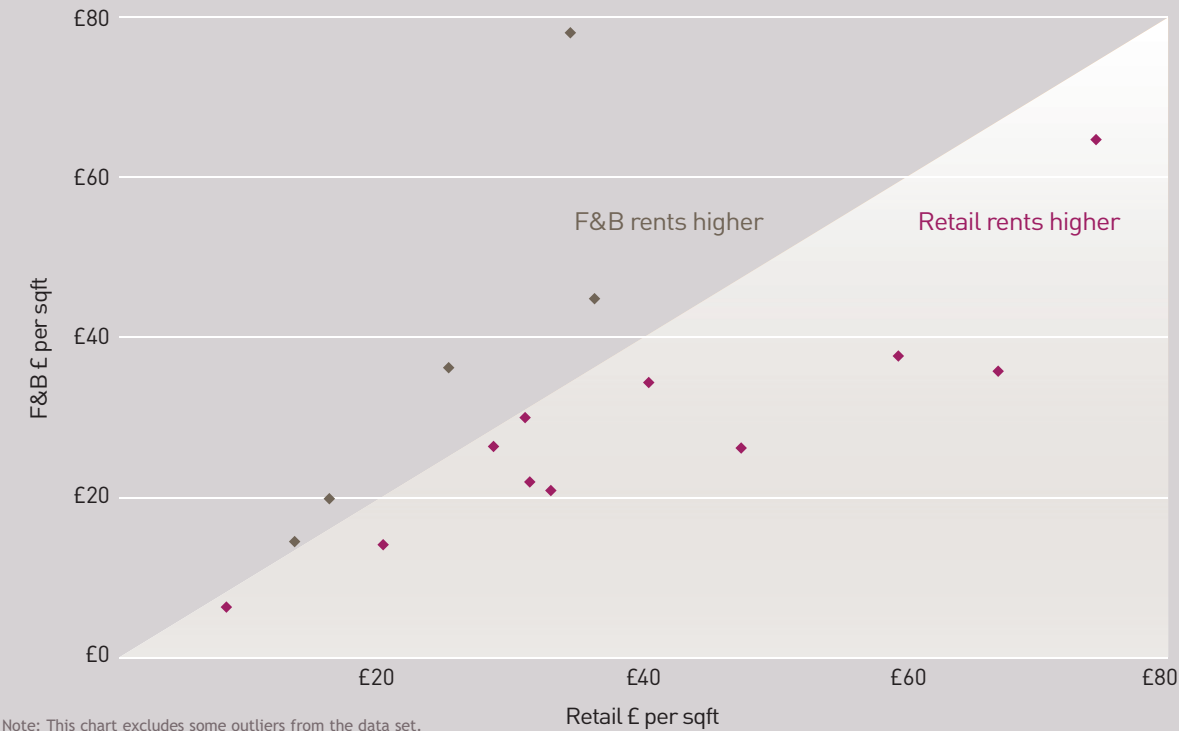
This data runs contrary to some anecdotal comment that F&B rents are at parity or even exceeding retail rents. Indeed, our analysis has included some very small (under 500 sqft) F&B premises that have relatively high rentals for the area taken. It could be argued that these units have artificially inflated the average F&B rental levels and should be excluded. In this case, there would be an even higher differential between retail and F&B rents.

Analysis of average lease lengths

During the research there has been some comment around the length of leases taken by F&B operators. The capital cost of fitting out and equipping an F&B outlet is high relative to retail. F&B operators are often seeking to enter centres with security of tenure in order to recover these set-up costs.

To explore this further, tenancy data from a sample of 26 different shopping centres managed by Savills (as of March 2014) was analysed to determine any differences

Figure 6: Comparison of average rents for retail and F&B outlets for each centre studied



between average lease length for retailers compared with F&B operators. The total sample of leases analysed was 1,017. The results of this analysis are shown in Figure 7.

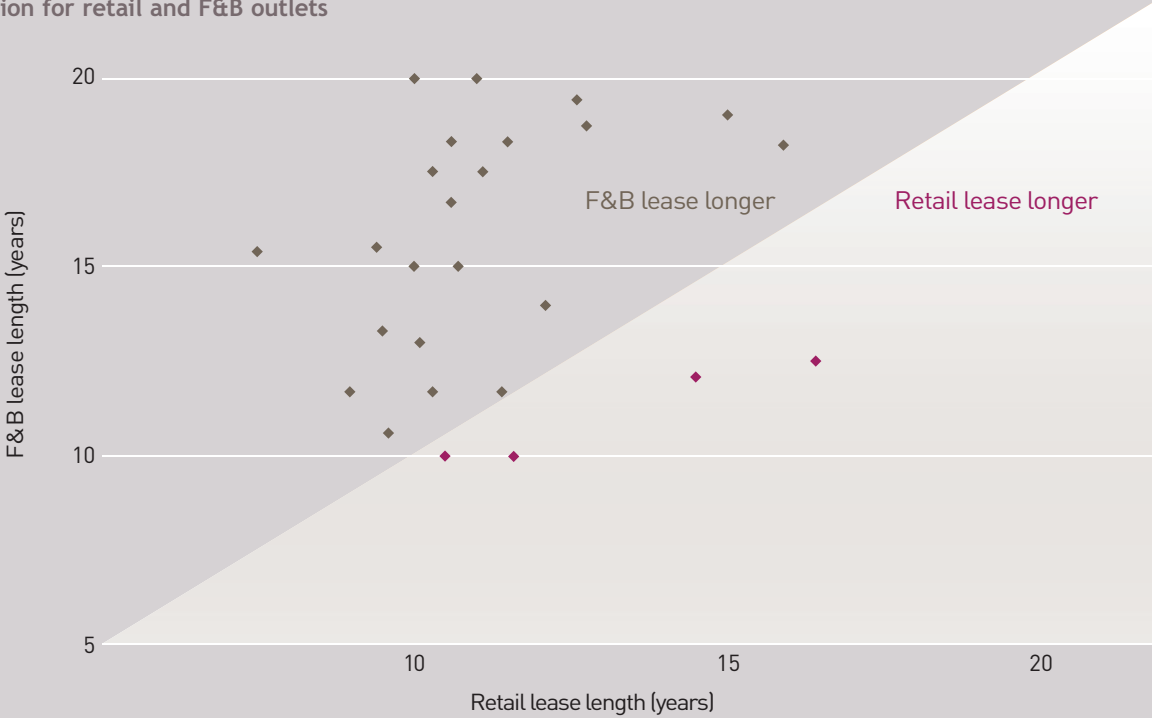
Figure 7: Comparison of shopping centre average lease duration for retail and F&B outlets

Number of centres where average F&B lease duration longer	Number of centres where average retail lease duration longer
22	4

Note: This analysis was subject to the same restrictions taken into consideration when analysing rental values (Figure 5).

This analysis demonstrates that the majority of F&B leases are longer than those taken by retailers. Overall, F&B leases were 34% longer than comparable retail leases. There is considerable variation depending on the type of centre, location and sophistication of the food offer. The data from each centre is analysed in Figure 8.

Figure 8: Comparison of shopping centre average lease duration for retail and F&B outlets



Average rents for F&B were at parity or below the levels paid by retailers in similar sized spaces. The average rental differential showed that retail rents were 21% higher than F&B.

8. The impact of F&B on retail

The research has been able to analyse the impact of F&B on the wider shopping experience through the use of data provided by Path Intelligence. By mapping visitor journeys using its FootPath technology, Path Intelligence shows precisely where customers have been, how long they stayed, and what they did next. The data was used within the context of this research to look at two areas:

- does F&B contribute / complement the retail offer within a shopping centre?
- does having an F&B offer provide an argument for extended retailer trading hours? (which is covered further on in the report – Section 10).

There is a commonly held belief that F&B within a shopping centre helps to extend dwell time (and therefore consumer spend). The research sought to understand whether F&B, and increased dwell time, contributed to an increase in the number of visits to non-food stores within a scheme.

In general, there is a linear relationship between cost and dwell time/experience. Put simply, the more a consumer pays for F&B, the more they would expect to receive in terms of an experience (and likely dwell). This is shown in Figure 9.

Path Intelligence analysis

Path Intelligence first of all looked at whether those who dined within a scheme were more or less likely to visit non-food stores. There were 15 sites included in the study in total with data analysed across a two-year period. Centres were situated across the UK from the South East to Scotland, varying from smaller secondary centres to large regional centres all with a minimum footfall of 3 million visitors per annum. (Note: Confidentiality prevents Path Intelligence from naming schemes included in the analysis. Consequently no inference should be made between specific schemes mentioned within this document and those included in the analysis.)

Overall, the evidence suggests a ‘substitution’ effect, whereby a visit to an F&B outlet replaced a step in the shopping journey.

Of the 15 sites Path Intelligence included in the study, in all but two instances, the average number of stores visited by non-

eating shoppers (i.e. those whose visit is solely for non-food purposes) was at least one greater than the average number of stores visited by diners. This was consistent irrespective of the type of centre or type of F&B offer. However, it was particularly pronounced in cases where the F&B offer had a greater proportion of fast casual operators.

In other words, schemes with more of a fast casual offer provided a bridge between different parts of the shopping journey (a case of shop-eat-shop) and extended dwell time; thus increasing the potential for people to remain in the centre and continue to shop. However it was not necessarily shown to have increased the number of stores visited and diners were not shown to have shopped more as a consequence of the food offer.

A good example of successful integration is those retail anchors that also have an F&B offer. Looking at one centre with a number of strong anchors that include F&B, dwell data showed that many shoppers visiting an anchor did not venture beyond the anchor store itself but spent a significant amount of time within it. While data for the F&B offer within the anchor store cannot be isolated it appeared that it was able to retain shoppers as it provided everything shoppers needed, including foodservice – in effect the anchor was operating as a centre within a centre. While this has implications for the occupier mix within a centre, it also shows the value of better integration of F&B in retaining customers and increasing dwell times.

Where there were exceptions to the substitution effect the following was found. A large regional development with strong anchors and a restaurant-focused food offer saw an average shopper visit just over one store. Those who visited F&B (roughly a quarter of visitors) went to just over four stores in addition to dining.

Dwell time for those who only shopped was 99 minutes, compared with 111 minutes among those who ate. Combining both shopping and eating brought the average to 150 minutes. While those who both ate and shopped did not spend as much time in each store as the dedicated shopper, they travelled noticeably more widely across the site.

99min

Dwell time for those who only shopped was 99 minutes, compared with 111 minutes among those who ate.

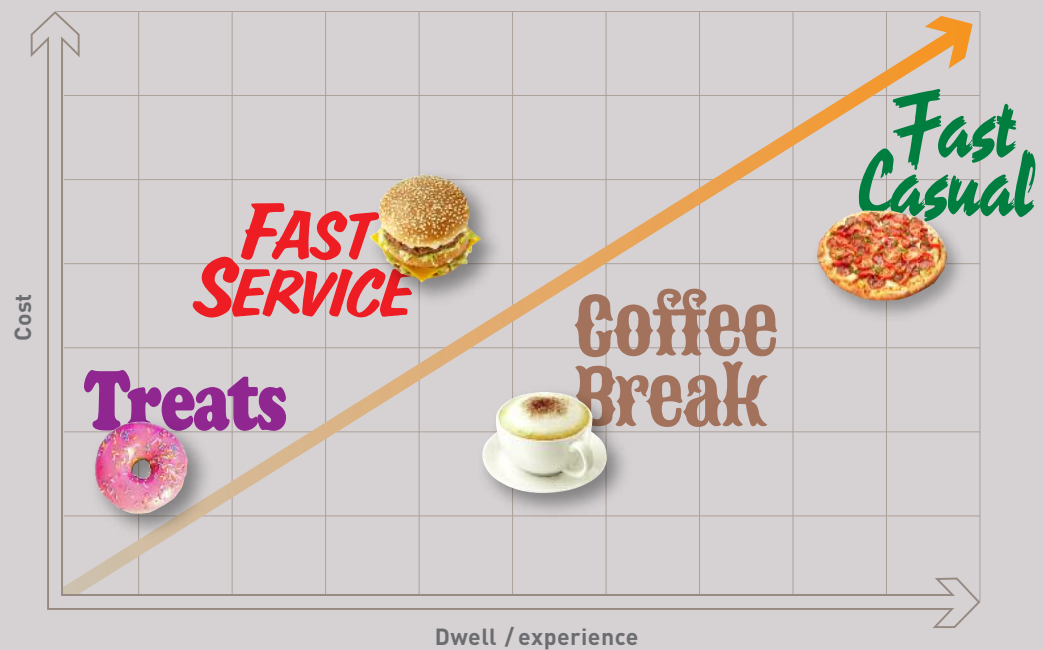


Diners here made a greater dwell contribution than at any other site considered however this appeared to be anomalous. When looked at in closer detail, it appears one of the anchors on this scheme has an upscale restaurant offer. Therefore it could be argued that the low numbers of stores visited on average at this scheme (just over one) was a consequence of its anchor providing a good food and non-food offer which meant shoppers did not need to visit as many stores (or indeed other F&B operators).

Nevertheless, the type of F&B offer could help aid the likelihood of increased spend in other areas of the centre – in particular a more fast casual offer.

This presents an opportunity for schemes to provide a more integrated food and non-food offer, to encourage spend across a wider range of outlets. This would therefore help F&B to impact positively on those metrics considered important when looking at the economic impact of F&B on a centre.

Figure 9:
The relationship of
the different types of
F&B between cost and
dwell / experience



There is a linear relationship between cost and dwell time / experience. Put simply, the more a consumer pays for F&B, the more they would expect to receive in terms of an experience (and likely dwell).

9. F&B in smaller centres and secondary locations

“We match up the food offer with the demographic. For our shoppers it is about an everyday shopping experience. They know what they are going to be buying – dwell time is short with a high frequency of visits. This lends itself more to coffee shops and fast food.” **Landlord**

Many of the success stories for F&B in centres that have been publicised within the industry tend to focus on its impact within larger regional centres. These centres, especially those built over the past 4-5 years, have dedicated space for food and beverage hubs – purpose built spaces that help to attract F&B operators and integrate them within the scheme.

For smaller centres and centres that might be considered to be in secondary locations, F&B displays good potential to enhance the experience offered to customers. While we are not likely to see dwell times even approaching those of regional centres, F&B still offers the possibility to attract customers and to keep them within the centre for longer. What is crucial is to avoid copycat offers that mimic the larger centres. Rather, a smaller yet well-selected F&B offer that is tailored to the type of shopping trip and visitor type shows greater potential to succeed. One F&B operator voiced its concerns: “A lot of smaller scale schemes are trying to do the same thing... (but) the shopping occasion is very different and so the dwell time is nowhere near as much... it’s a different occasion.”

Foodservice can act as a major attraction for centres, provided it is the most attractive portfolio of F&B offers in the local area. This does not mean that the F&B offer should reflect a fine dining experience. Rather, the F&B offer should be tailored to the demographic profile of the catchment area combined with the competitive environment. Using this profiling information, centres can then seek to attract ‘best in class’ operators so that the centre offer is more attractive than alternatives within the catchment area.

The lower total number of units in such schemes means that F&B can have a greater relative impact on perceptions of the scheme. Given that small schemes may have only one or two foodservice units, there is a greater imperative for operators within these units to have a flexible F&B offer that can cover as many different day segments as possible. Innovative solutions to offering space, such as pods and kiosks, may also need to be considered in order to provide adaptable solutions in such cases.

In an NPD Crest study¹⁹, a mean average spend of around £9 per head showed that value for money has a big role to play too,

£11

A mean average spend of around £9 per head showed that value for money has a big role to play too, comparing with just over £11 spent in full-service chains like Strada and Giraffe to £3.50 at fast service outlets.



The Heart, Walton-on-Thames



Eden Centre, High Wycombe

¹⁹ Families get a taste for fast casual dining, Marketing Week, (02 August 2012).

As always, the golden rule applies – it really is all about having the right offer in the right place that is available at the right time.



33%+

Average spend at the Eden Centre on F&B has increased 33% between 2011 and 2013.

comparing with just over £11 spent in full-service chains like Strada and Giraffe to £3.50 at fast service outlets.

For smaller centres, the differing shopper profile means that convenience and speed are far more important. Therefore, it is likely that the F&B offer will be most effective if it acknowledges these shopping requirements and therefore offers speed and convenience itself – fast casual and even fast service will be more relevant in these contexts. It is also difficult to create a critical mass of F&B offers in smaller schemes. One landlord summed it up thus: “We match up the food offer with the demographic. For our shoppers it is about an everyday shopping experience. They know what they are going to be buying – dwell time is short with a high frequency of visits. This lends itself more to coffee shops and fast food.”

The Heart in Walton-on-Thames is a mixed use scheme with 50 shops, 11 restaurants and cafes and 279 private flats. The catchment comprises a number of major retail locations and competition is fierce. The scheme markets itself as a stress free environment; where visitors can safely park, shop and socialise either under cover or al fresco. Its varied F&B offer including casual dining such as Carluccio's, the artisan bakery Flours and the family-friendly restaurant Giraffe has provided a genuine point of difference within the catchment.

This focus on the experience and a more relaxed environment has meant that between 2010 and 2013, the average number visits to its cafes and restaurants (and dwell time) has more than doubled.

The Eden Centre in High Wycombe is an 875,000 sqft retail and leisure scheme comprising of over 120 shops and restaurants as well as a 12 screen Cineworld cinema. Its food hub comprises a mixture of chains and independents as well as different foodservice types. Average spend on F&B has increased 33% between 2011 and 2013 and it has proved to be a successful scheme for a number of the F&B operators.



Christopher Place, St Albans

Christopher Place in St Albans is a small, town centre-based scheme with a number of established F&B operators within the scheme (i.e. Wagamama, Carluccio's, Prezzo, Zizzi). Consequently the scheme serves as the dominant offer within the town. In addition, the F&B operators on the scheme reflect the more affluent and family-oriented demographic of the surrounding area. As always, the golden rule applies – it really is all about having the right offer in the right place that is available at the right times.

For smaller centres, the differing shopper profile means that convenience and speed are far more important. Therefore, it is likely that the F&B offer will be most effective if it acknowledges these shopping requirements.

10. F&B as part of the night time economy

A leisure offer is vital in shopping centres extending their trading hours into the evening. There is significant anecdotal evidence that as retail activity declines and the evening progresses beyond 8pm, a cinema or other leisure offer is essential for extending trading hours. Certainly, food operators have a preference to be situated close to a cinema. There are certain retail locations where the F&B offer lends itself specifically to an evening / post-6pm professional audience (such as Canary Wharf) – however these types of schemes account for only a small proportion of shopping centres across the UK and are less than typical.

The presence of a food hub within a centre is beneficial as this can often be operated as a sub-unit within the centre. This can help facilitate opening well into the evening with the potential to reduce the numbers of operational staff required to service this area. In some cases, centres are configured to enable separate dedicated exits for visitors using F&B or leisure facilities. This in turn enhances the centre's overall security by allowing the closure of daytime entrances once retail trading has ended for the day.

Trinity Kitchen is intended as a more 'edgy' way of incorporating F&B into the centre's overall offer. It is over 20,000 sqft with urban 'warehouse' styling and use of interactive technology. Trinity Kitchen features more boutique cafés and restaurants, along with rotating pop-up restaurants, with a view to attract a different customer and be a destination in itself.

It is expected that Trinity Kitchen will increase overall dwell time in the centre. So far, F&B has seen higher than predicted footfall in the evening – 15-17% compared to a predicted 10% between 5pm and 11pm. Trinity Kitchen and the Everyman cinema have added further to this.

However, retailers consulted were not convinced that opening later to complement an F&B offer leads to a subsequent increase in their stores' sales. Indeed many believed that the costs associated with opening later into the evening outweighed the benefits and that they had not seen a sufficient increase in either footfall or sales to justify opening in the evening.

→39%

There was a 39% drop in dwell time among F&B users at the scheme with a smaller, less-developed F&B offer after 6pm.

→11%

There was only an 11% drop in dwell time post-6pm among F&B users at the larger, well-developed scheme.

Figure 10: Comparisons in pre- and post-6pm dwell time between different centre and visitor types

Centre type	Pre-6pm		Post-6pm	
	Average dwell time in minutes (shoppers only)	Average dwell time in minutes (F&B users)	Average dwell time in minutes (shoppers only)	Average dwell time in minutes (F&B users)
Larger regional centre (varied, fast casual / fast service F&B offer)	130	156	125	139
Smaller secondary centre (limited, fast service F&B offer)	84	116	55	71

Source: Path Intelligence — 16 schemes included in analysis with average annual footfall of 11.8 million. Footfall ranged from 5 million to 30 million visitors per year.



Trinity Kitchen, Leeds



The Oracle, Reading



“Do you want to sit in a shopping centre at night to have a nice meal? Lunch yes – but dinner? Maybe not – the ambience isn’t quite the same.”

Indeed, analysis by Path Intelligence showed that the combination of a more restaurant-focused offer and later opening hours boosted dwell for food visitors more than it did for those who only shop.

Comparing one large regional destination site with a smaller and less central site, the difference in pre- and post-6pm dwell times was stark.

There was a 39% (highlighted in orange) drop in dwell time among F&B users at the scheme with a smaller, less-developed F&B offer after 6pm compared with only an 11% (highlighted in green) drop in dwell time post-6pm among F&B users at the larger, well-developed scheme.

While diners may enjoy more leisurely meals earlier in the day – at the expense of store visits – this trend reversed around evening mealtime. The percentage of mall traffic in the food area was unchanged from peak lunchtime trends, and evening visitors left sooner.

This data seems to suggest that attracting diners into the evening is a possibility (depending on the F&B offer) however attracting dedicated shoppers in the evening proves more difficult. In addition, some centres with an inward-facing F&B offer feel that they are less likely to attract visitors from outside – even with a higher end offer. One centre manager commented: “Do you want to sit in a shopping centre at night to have a nice meal? Lunch yes – but dinner? Maybe not – the ambience isn’t quite the same.”

Recent developments have also looked at a more outward-facing F&B offer. The Oracle in Reading is an example of a centre which prides itself on a thriving F&B offer. Retail within the centre does not open past 8pm – however its outward-facing restaurants and bars stay open until late (along with its cinema) and its riverside location provides a distinctive and differentiated dining experience which would be difficult to replicate internally.

The Round – the new development at Telford Shopping Centre – includes a food hub with particular emphasis on the development of a cafe culture with a cluster of new cafes, restaurants and bars designed around the dramatic and vibrant Central Square. A key benefit of The Round is the introduction of a night time economy to Telford and this will inevitably reinvigorate the shopping centre and Telford town centre itself.

Although more difficult to achieve, the success of an internal evening F&B offer appears dependent on having both the critical mass and variety to attract visitors inside. With an external offer, the more atmospheric element (in addition to the choice on offer) is the key to success.

Retailers typically struggle to sustain footfall into the evening and often prefer to close before 8pm unless they are encouraged to remain open either by lease covenants or the potential of sustained / increased footfall. However for many retailers, the costs of later opening (i.e. staff costs, energy costs, security, etc.) outweigh the revenue generated. Although such costs are relatively insignificant over a couple of hours, these add up over time meaning the case for later opening becomes less than compelling.

A leisure offer, typically a cinema, is usually required if a centre wishes to attract visitors well into the evening and night time. F&B in itself is unlikely to attract sufficient trade to a centre on its own. The exception to this is those locations with poor provision of F&B in its local area. In these cases, F&B can become a focal point within the community for eating out. In essence, the scheme takes on the role of a de facto town centre.

11. The future for F&B in retail

“We believe the answer lies in three key areas – a really detailed understanding of the consumer, providing the right services to attract the consumer, and creating an environment where we all want to spend time.”

Andrew Smith Head of Investment in Portfolio Management, British Land

Source: Whiteley Shopping Centre Investor Day presentation, British Land, 19 September 2013

It appears that F&B will continue to grow as a proportion of overall space within shopping centres in the short term. However, there will come a point when F&B is in a proportional balance with the other elements of the centres' offer and further expansion may lead to dilution of the offer. Retailers and most F&B operators want food service within centres to be concentrated in a specific area. Food hubs are preferred for practical reasons (i.e. utilities, extraction, etc.). Further, the synergy between different operators creates an overall impression of variety and choice that ensures a food hub becomes an attraction in itself.

As discussed earlier, planning restrictions in relation to change of use to F&B have relaxed – indeed one respondent commented that F&B operators are “falling over themselves to take space”.

However, in the 2012 BCSC report *The Rise and Rise of Multi-Channel Retailing*, the authors were of the opinion that it was not inconceivable that 20% of today's retail space will become surplus to requirements. Countering this by attempting to blindly convert any type of unit to A3 is not necessarily the answer. It is about the right space in the right place within a given location.

Ultimately, the key to a successful F&B offer is through understanding who is visiting the centre and tailoring it to the requirements of the consumer. As Andrew Smith, Head of Investment in Portfolio Management at British Land commented recently: “We believe the answer lies in three key areas – a really detailed

understanding of the consumer, providing the right services to attract the consumer, and creating an environment where we all want to spend time.”²⁰

Predicting future space of F&B within retail locations has not proved easy. There is no doubt that F&B will continue to increase in importance and provide a crucial element in drawing visitors to shopping locations. However few are able to accurately predict future F&B floorspace.

With the branded restaurant market predicted to grow from £16.4 billion in 2013 to £22 billion in 2018, this will increase competition among the larger chains and will increase the need to adapt the offer accordingly. Growth is predicted to come through both physical expansion and positive like-for-like performance. In addition, the growth in the branded market will mean larger chains will increase market share at the expense of independent operators as well as increasing the ability to dictate more favourable lease terms. The development of smaller chains however should not be forgotten. The F&B market is always re-inventing itself and new brands are constantly being developed; Giraffe, Las Iguanas and Côte are now visible in centres across the country and all are under 10 years old. More recently the likes of MEATliquor has moved on from operating a single pop-up unit in London to soon to be opening a 5,000 sqft unit in Trinity Leeds.

The introduction of more up and coming operators into shopping centres is not without its pitfalls. There have been a number of instances in which successful

The growth in the branded market will mean larger chains will increase market share at the expense of independent operators.



²⁰ Families get a taste for fast casual dining, Marketing Week, (02 August 2012).



food operators within London were unable to replicate that success in other parts of the country. This reinforces the general view among respondents that London exists as a separate market from the rest of the UK with a different behavioural profile with regard to F&B. These considerations are likely to remain a key factor for shaping the future of F&B within retail.

The overall question posed in the title of this report: 'Is food and beverage a solution?' seeks to address whether F&B can reduce the number of voids in centres and shape the future of the industry going forwards. The answer to this rather daunting challenge is no. If the question is rephrased

ask whether F&B can contribute to the future shape of the industry, then the answer is a resounding yes.

Finally, it should be noted that many of the major developments involving F&B, are yet to establish themselves. Consequently it may be a few years before we will be able to accurately examine the impact of the recent boom in expansion of F&B within retail. There is currently a strategy of 'wait and see' among many landlords. As one major landlord commented: "We're all still learning."

The key to a successful F&B offer is through understanding who is visiting the centre and tailoring it to the requirements of the consumer.

12. Appendices

Appendix 1: Case studies



With 1,500,000 sqft of space, the Silverburn Centre is a £350 million purpose-built retail development which saw a 14 million footfall last year. The centre opened in October 2007 and has been successful in attracting a host of flagship stores including Marks & Spencer, Next and Debenhams as well as a number of big shopping and food brands.

Hammerson — along with Canada Pension Plan Investment Board — acquired the shopping centre after its previous owner, Retail Property Holdings Ltd, went into administration two years after the centre opened.

Currently, the F&B offer in the Silverburn Centre is a mix of in-store cafés — in Debenhams and Marks & Spencer — and fast casual chain restaurants and coffee shops, such as Nando's, Wagamama, Yo! Sushi, Costa and Frankie & Benny's. Extended opening hours are available in some of the restaurants where some remain open until 10pm, while the centre closes at 9pm.

Silverburn plans to add to its F&B and leisure offer with a £20 million 120,000 sqft extension, expected to open in late 2014 / early 2015. It will be anchored by a 50,000 sqft cinema. The centre is adding nine new restaurants including a 10,000 sqft Cosmo (a pan-Asian restaurant), a 6,800 sqft TGI Friday's and a 3,600 sqft Pizza Express.

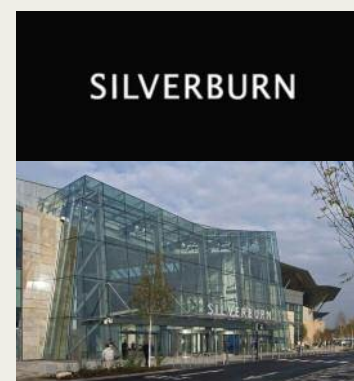
With the extension, Silverburn Centre is hoping to expand upon its already-improving performance:

- footfall was up 32% last December 2013 compared to the previous year
- it is hoping to expand on this further with their new leisure facilities
- so far, £750,000 of £1 million annual rental fees have been negotiated.

The expansion of the Silverburn Centre is partly due to their intention to be seen as 'a true day-out alternative to Glasgow city centre' and to improve upon its current average dwell time of 93 minutes, according to Martin Plocica, Director UK Shopping Centres at Hammerson. Upon its acquisition, Phillipa Zieba Project Director for Hammerson stated they were:

"Confident that Silverburn can offer more in terms of new stores and the potential for a leisure offer... We are investing for the future — and it will definitely be money well spent".

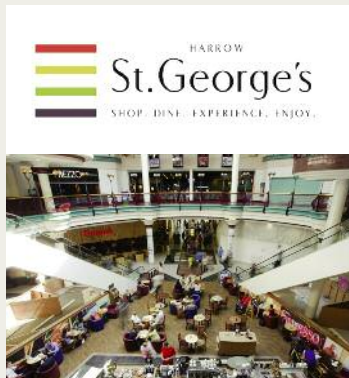
Source: £20 million makeover for Silverburn shopping mall, Evening Times, 16 February 2013



Silverburn Shopping Centre, Glasgow

Silverburn F&B offering

- Auntie Anne's
- Chocolati
- Costa Coffee
- Debenhams
- Frankie & Benny's
- Greggs
- Handmade Burger Co.
- La Tasca
- M&S Cafe
- Nando's
- Pizza Hut
- Prezzo
- Starbucks
- Thorntons
- Vom Fass
- Wagamama
- Yo Sushi



St Georges, Harrow

St. George's F&B offering

- Esquires Coffee
- Frankie and Benny's
- McDonalds
- Nando's
- Pizza Express
- Prezzo
- Starbucks
- Thorntons



Located in Harrow, 20 minutes north-west of central London, St George's Shopping Centre (owned by Redefine International) comprises a 212,000 sqft centre with 40 units across three levels of retail and leisure, designed in the 1980's and opened 1996.

St George's has traditionally been viewed as the secondary scheme within Harrow town centre and was operating as a secondary shopping scheme with a poorly performing, disjointed A3 / leisure offer along with an acute lease expiry profile.

The owners developed a long term strategy to reposition the centre to increase the asset value and create a successful sustainable product from a rental perspective, while broadening the consumer appeal by creating the leisure and retail destination of choice within the wider catchment. The strategy included plans to increase and enhance the A3 offer.

In addition to increased income, the redevelopment has created a shopping and leisure destination that has enhanced the overall experience for visitors to Harrow town centre while positioning St George's as a leisure destination in its own right.

Results achieved to date include:

- an increase of 4% in net internal area (NIA) dedicated to leisure
- improvements and changes in relation to the A3 category, enhancing the overall leisure offer for customers with a great choice of casual dining, which the town was previously lacking
- increase in the number of screens at Vue has resulted in more choice and greater appeal for visitors
- improved dwell time.

The consumer and operator feedback during the refurbishment and repositioning has been very positive:

"Our newly rebranded Pizza Express store at St George's in Harrow has been a huge success and is now one of the stars of our portfolio" – Pizza Express.

"The opening of the restaurant in St George's has far exceeded our expectations..." – Nando's.

Source: Redefine International website



With over 150 individual units, Woking Shopping comprises of over 1,000,000 sqft of retail, leisure and office space. Woking Shopping consists of Peacocks Shopping Centre, opened in 1992 and Wolsey Place; a 1970's development extensively refurbished in recent years. Anchoring both centres which currently attract circa 15 million annual footfall are Debenhams, Sainsbury's, Boots and Primark.

The Peacocks and Wolsey Place have been rebranded together as 'Woking Shopping', a move welcomed by traders and shoppers alike. Considerable public realm improvements have transformed the environment of the town centre and when in 2011 the new Jubilee square officially opened, the new entrance to Wolsey Place has an elliptical glass frontage incorporating Pret A Manger among others. A café culture feel has been achieved through the arrangement of seating in a shared and well used public square.

The management team has been careful to ensure a range of catering offers are available to both centres. The Peacocks offers a mix of coffee shops and Quick service – such as Costa and Millie's Cookies – and fast casual dining – such as Chopstix, Café Rouge and Azzuro. Recent introductions to Wolsey place haven been Prêt and Patisserie Valerie.

The Peacocks provides an all-day shopping experience and to improve dwell time has significantly refreshed the food court offer.

It is exploring ways to provide additional family dining options to link to the extensive leisure offer of two theatres and six cinema screens.

Tim Buckley, Asset Manager at Moyallen Shopping said:

“Upgrading a scheme effectively is about identifying the changing needs of the catchment and for us bringing in Café Rouge was an opportunity to prove that a better food and beverage offer would be supported in Woking. Café Rouge is performing very well and this has given us the confidence to introduce much better quality F&B offers and more importantly the confidence from the operators to look at the town centre for new sites. As proof of the success we have added Pret and Patisserie Valerie and have plans for another four or five F&B units to help further develop the twilight economy.”²¹

WOKING SHOPPING

Peacocks • Wolsey Place



Woking Shopping, Woking

Woking Shopping F&B offering

- Azzuro
- Baskin Robbins
- Burger King
- Café Americano
- Café Rouge
- Chopstix Noodle Bar
- Costa Coffee
- Debenhams
- El Mexicana
- Greggs
- Grill & Go
- KFC
- Le Papillon Patisserie
- Love Coffee
- McDonald's
- Millies Cookies
- Muffin Break
- Patisserie Valerie
- Pret A Manger
- Shakeaway
- Spud-U-Like
- Starbucks
- Subway
- Zest Juice Bar

²¹ Breathing new life into secondary malls, Retail Week, (06 September 2013).



Intu Lakeside Shopping Centre, Essex

Intu Lakeside F&B offering

- Bella Italia
- Boost Juice Bar
- Burger King
- Café Giardino
- Café Rouge
- Café Nero
- Chopstix Noodle Bar
- Cinnabon
- Costa Coffee
- Ed's Easy Diner
- Café Giardino
- Giraffe
- Gourmet Burger Kitchen
- Greggs
- KFC
- La Tasca
- Las Iguanas
- Love Coffee
- M&S Kitchen
- McDonald's
- Miller & Carter
- Millie's Cookies
- Nando's
- Pizza Express
- Pizza Hut
- Pret A Manger
- Sainsbury's Pie and Mash
- Shakeaway
- Spreads Café
- Spur Steak & Grill
- Starbucks
- Strada
- Subway
- Sweets From Heaven
- Taco Bell
- Wagamama
- Wimpy
- YO! Sushi
- 360 Champagne & Cocktails



Located in Thurrock, Essex, the Lakeside shopping centre is the seventh largest in Britain with over 1,350,000 sqft of floorspace. An out-of-town shopping centre, Lakeside was opened in 1990, though it was rebranded as 'Intu Lakeside' in 2013. To ensure the centre remained competitive with the Bluewater centre across the Thames, it has undergone multiple renovations and upgrades.

In 2005 the interior was refurbished and in 2007 a market area which adjoins the centre was refurbished and rebranded as 'The Boardwalk'.

The food offer at Lakeside is varied, with 39 restaurants and cafés within the centre and Boardwalk. 20 of these are throughout the main centre, most of which are cafés and snack operators, such as Costa and Millie's Cookies. There are 8 restaurants in the food court offering fast casual dining, such as Pizza Express and Taco Bell. Restaurants in the adjoining Boardwalk offer bistro type venues, such as Gourmet Burger Kitchen and Bella Italia.

After the success of transforming the Boardwalk there were two plans in place to update Lakeside's F&B offer, the first of which is a £9 million redevelopment of the food court. Already underway, the upgrade has seen new interiors and some new vendors, such as Chopstix and Ed's Easy Diner added. The final phase, expected to be finished in early 2014 is the remodel of individual F&B outlets and the addition of another as-of-yet unnamed restaurant.

As well as the food court, Lakeside plans to add a £180 million, 438,000 sqft extension to the centre, expected to be finished by 2017. The extension will be designed to look like a town square and be built near the existing Vue cinema, which will also be expanded. Though retail will possibly be used for some of the space, it has been designed to be primarily leisure-based, with potentially 30 new restaurants and cafés added, as well as a hotel.

The expansion comes after public consultation carried out by Intu discovered that 82% of respondents said that they would spend more time at the centre if additional leisure activities were available. The centre is looking to increase the dwell time of its customer base, which already attracts a 25 million annual footfall, and become a day-long destination.

Chief Executive of Intu, David Fischel stated:

"Our aim is to increase footfall, dwell time and spend at our centres, which will drive long-term value creation for shareholders."

Source: Properties plc: Interim management statement, Bloomberg, 05 November 2013

Appendix 2: List of contributors

Thank you to the following for their valuable contribution to this project:

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Thank you to Coverpoint Catering Consultancy for the provision of some images used in this report.

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Appendix 4: Glossary of terms

Term	Definition
A1	<p>Shops which are used for all or any of the following purposes:</p> <ul style="list-style-type: none"> (a) for the retail sale of goods other than hot food (b) as a post office (c) for the sale of tickets or as a travel agency (d) for the sale of sandwiches or other cold food for consumption off the premises (e) for hairdressing (f) for the direction of funerals (g) for the display of goods for sale (h) for the hiring out of domestic or personal goods or articles (i) for the reception of goods to be washed, cleaned or repaired. <p>Where the sale, display or service is to visiting members of the public.</p>
A2	<p>Financial and professional services with use for the provision of:</p> <ul style="list-style-type: none"> (a) financial services (b) professional services (other than health or medical services), or (c) any other services (including use as a betting office) which it is appropriate to provide in a shopping area. <p>Where the services are provided principally to visiting members of the public.</p>
A3	<p>Food and drink: for the sale of food or drink for consumption on the premises or of hot food for consumption off the premises.</p>
A4	<p>Drinking establishments such as public houses, wine bars or other such establishments.</p>
A5	<p>Hot food and takeaway: for the sale of hot food consumption intended for consumption off the premises.</p>
Compound Annual Growth Rate (CAGR)	<p>Compounded Annual Growth Rate (CAGR) is a method used to provide a constant rate of return over a particular time period. CAGR reduces the effects of variability found in periodic returns and is particularly useful to compare growth rates from different data sets such as revenue growth of companies in the same industry.</p>

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