# Moving with the Times

MYZEIL, FRANKFURT, GERMANY

## AS THE PROPORTION OF F&B LOCATIONS WITHIN SHOPPING CENTRE DEVELOPMENTS CONTINUES TO RISE, ANDREW MCGREGOR, PARTNER AND HEAD OF OUT OF TOWN RETAIL AT KNIGHT FRANK TAKES A LOOK AT THE INDUSTRY AND SOME OF THE KEY POINTS SURROUNDING IT.

The estimated leisure spend in the UK in 2016 was well over £200bn, and this accounts for approximately 20 per cent of the total consumer spending per head of population. That's £1 in every £5 channelled into the leisure industry. Of that proportion, nearly 50 per cent of it is classed as eating or drinking out of home. No wonder the retail sector, and in particular shopping centres, has taken this area of the consumer market so seriously.

The traditional domain of the food and beverage operator has either been an established high street "circuit"; a "pepper pot" of operators in neighbourhood locations; casual dining brands associated with multi-let, cinema anchored leisure schemes or stand-alone pubs and restaurants. Historically, the development of shopping centres saw a maximum of 5-6 per cent of space devoted to food and beverage, often in disappointing food courts situated at an upper-level. Compare this to some of the more recent shopping centre developments where the percentage of food and beverage has risen to over 20 per cent and in some instances closer to 30 per cent e.g. Trinity Leeds; Princess Square; Bracknell; Eldon Square; Newcastle and Westgate, Oxford. There are arguable two strands to this strategy:

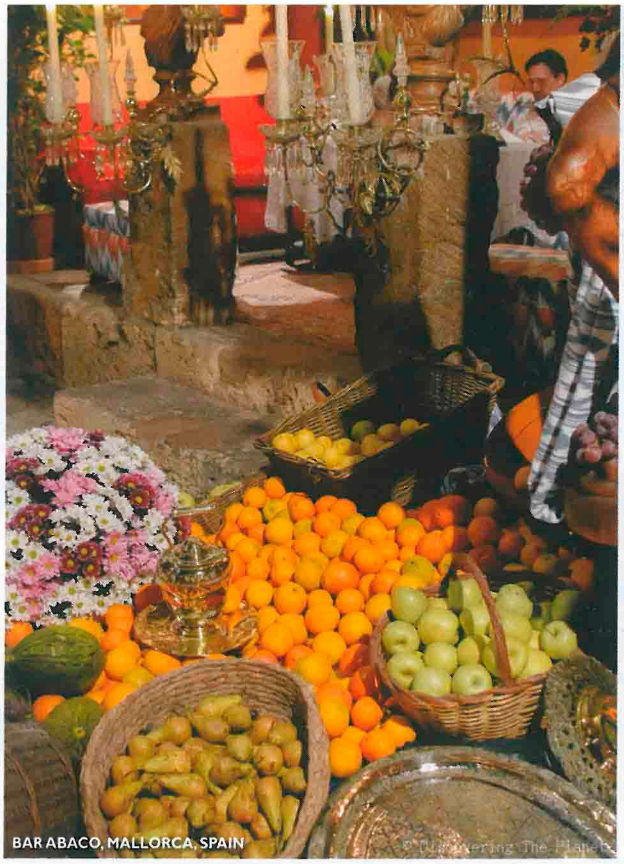
1. As demand in the F&B sectors has grown and rents have increased as a consequence, the viability of including leisure of part of the shopping centre mix has improved significantly.

2. If designed correctly, and not tucked away at the back of the shopping centre or on the roof, leisure can improve footfall, dwell time and the hours of trading.

However, at a time when retailing and retail spend in the UK is under pressure, the significant organic growth of many food and beverage operators in the last 5 years has begun to impact on performance and create issues of oversupply. Perhaps the most recent example is the proposed extension to Princesshay, Exeter where over 15 restaurants were proposed in arguably an already well-supplied town.

It is worth stressing, that the ample press coverage about the demise of the F&B sector is, as ever, rather over blown. In particular, it is not just the function of rent which is causing many restaurant operators to be significantly more cautious about their expansion plans. As the pipeline of supply and demand slows, the bar/restaurant operators are facing unpresented challenges of cost inflation at a time when sales growth is difficult to achieve.

These challenges are in part specific to this sector, but also political and economic factors outside of their control. In summary, the F&B sector has to contend with significant food price inflation (partially given the currency devaluation for imported goods); business rate



BAR ABACO, MALLORCA, SPAIN


increases in some of the larger cities in the UK (including Birmingham, Manchester and Newcastle) and as much as 20 per cent increases in London; minimum wage rise from £7.20 per hour to £7.50 per hour in April 2017 and the spectre of these rising to £10 per hour by 2020; a sugar tax applied to fizzy drinks and finally increasing health and safety rules and "green measures" adding to operational costs. Many of these costs are totally outside the control of the operator, and therefore where they are able to influence costs through rent reductions or perhaps closing less viable stores, such measures may be taken.

That said, recent growth in the proportion of consumer spend across the leisure sector, would suggest that leisure is now part of the fabric of life in the UK. In a recent survey (Mintoel), the year-on-year growth of eating out in a pub, eating at a table service restaurant, drinking in a pub or going to the gym had all risen between 3-7 per cent. Casual dining brands such as Bills, Giraffe and Nando's have all recorded significant revenue growth in year ending 2016. The question for all these operators is how to maintain profit margin in the face of the "wall of costs" which they are facing. We expect to see some of the following innovations in the casual dining / restaurant sector to achieve this:

- Tablet / screen base ordering and payment (apparently McDonalds found that pre-order screens not only reduced staff costs, but customers ordered more food and drink given the simplicity of the task).
- Links to social media will be critical, offering pop up sales, links to booking facilities, and links to other products, movies etc (e.g. #bellawimpykid) and perhaps smart TV apps linking food delivery when ordering a "pay to view" movie at home.

Of course the delivery of food is a significant growth area (delivered food has risen by 22 per cent in the first 6 months of 2017). This increase in convenience eating adds weight to the argument that the environment for eating out must be as good as possible. That environment is not only the task of the restaurant operator, but also for the landlord. Whether it be out of town / retail parks such as Whiteley Village, Fareham, or more traditional shopping centre environments such as Trinity Leeds, these are shining examples of schemes which have embraced leisure and tried to create a synergy between the retail function and the leisure function. They aim to create an attractive environment for both day time and evening trade and critically provide a safe, secure and attractive atmosphere for the leisure operator and the consumer.

In the modern era, if you do not innovate, you fail. Too many restaurant operators have been rather complacent with their brands and have been over taken by new and innovate operators reflecting customer demand. Even more traditional operators such as Pizza Hut have recognised that a significant over haul of their brand is required and are now close to completing a refurb of their entire estate.

However, we would suggest that the landlord needs to further embrace the relationship with the tenant to ensure they are both working in harmony to maximise the appeal of the offer to the customer.

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