mapic

Placemaking in the new normal

Reinvigorating destinations through experiences and partnerships

This paper was produced by LDP for MAPIC

in association with A different View and Panelbase.com

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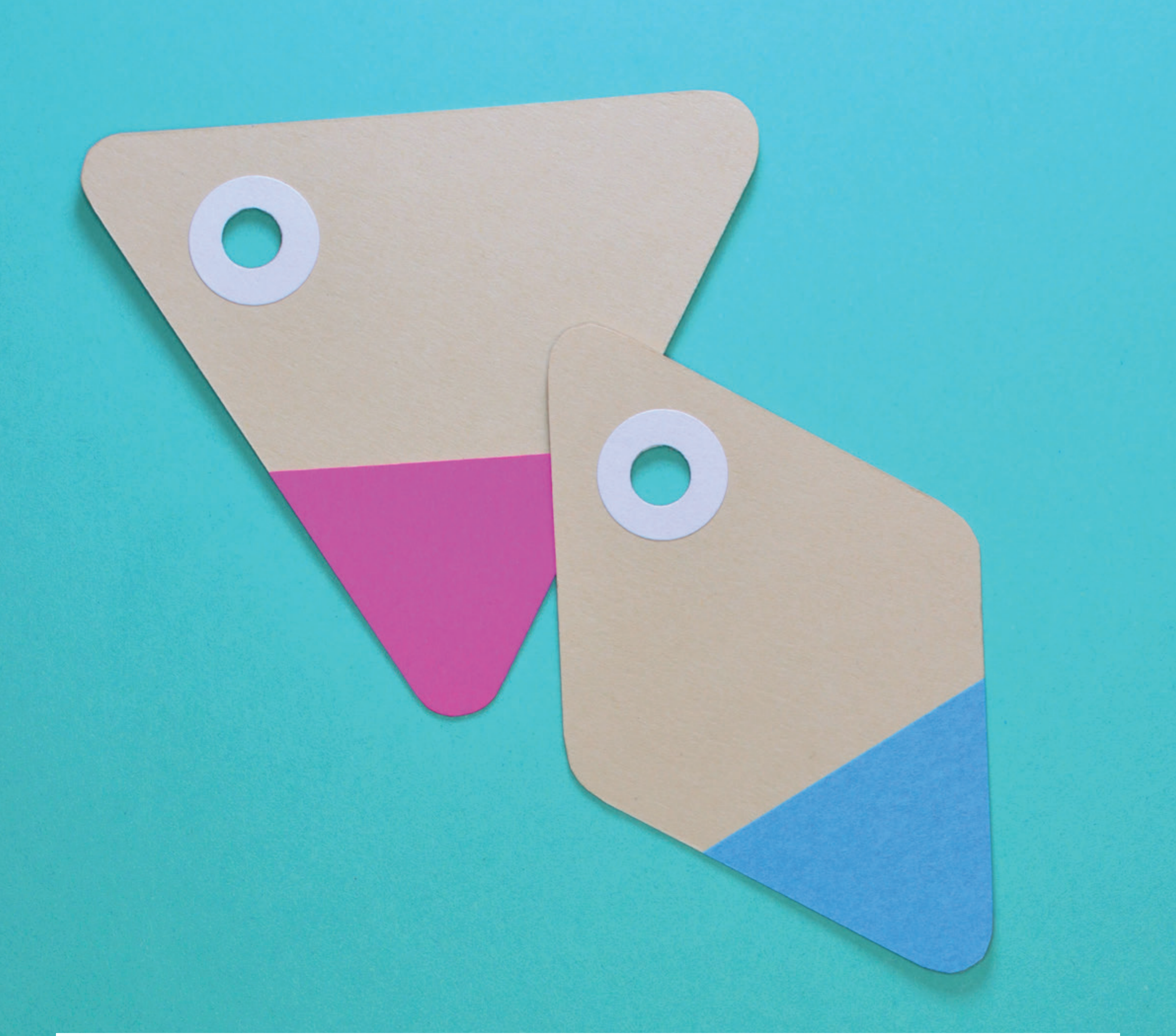


The last two years have been traumatic for the world and many businesses have been in and out of lockdown and have had to suspend operations. Many retail developments and city centres were already struggling to cope with the increase of online retail sales vs bricks and mortar prior to the pandemic and were starting to look at entertainment as another option to draw people in. So what does the future look like and what key issues should be considered in short term and long term planning?

During this paper we will explore the following:

- What is the new normal?
- How will consumer patterns shift? And key elements to consider based on primary research
- What should mall developers and city centres focus on to draw people back?
- How should they strategise this?
- What are the types of new investments that could do this?
- What are some examples /case studies of successful ventures involving entertainment and leisure. How were they structured and what lessons can we learn?
- Examples of selected business models that have been implemented

A NEW NORMAL?

It appears at the time of writing that the vaccine rollout is a success in breaking the link between infection and serious illness. This has started focusing minds back to the future for all aspects of society but in particular for the economy and workers. The lockdowns of 2020 and 2021 necessarily saw a dramatic shift to many office-based employees working from home.

One of the key questions that individuals, companies and policy makers are asking themselves is whether this is the new status quo (the 'new normal') or will workers gradually go back to pre-COVID behaviors.

Many politicians appear optimistic that commuters will return to the offices and city centres, in turn revitalizing these economies but the reality appears far less clear. Even if commuters do return to offices, it seems likely that it will be on a flexible basis which will reduce overall commuter footfall. Indeed Deloitte - one of the Big Four accountancy firms employing 20,000 staff in the UK – have recently announced that their staff will not be required to be in the office for any set number of days a week.

The impact on city centres is likely to be stark. Fewer commuters means less demand for office space and less secondary spend on the lunchtime and nighttime economies. Less office space is helpful for companies looking to cut overheads but is likely to lead to a surplus of commercial office space in city centres.

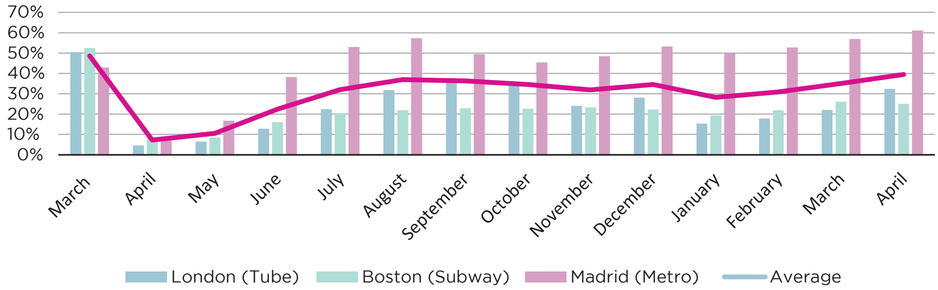
The impact of less secondary spend will lead to less demand for retail and dining. For retail in particular, the fall in footfall will be compounded by the acceleration of the online sales habit over the past year which will further damage demand for the high street (Topshop was one example of high profile casualties due to the pandemic).

Contrary to the impact on major commercial and urban centres there may be increased demand and footfall in satellite towns and cities as people stay closer to home to shop, dine and seek entertainment.

This trend won't just impact traditional high streets. Shopping centres are a microcosm of the high street and for a number of years have witnessed a decline in footfall due to rising online retail sales (as we have shown in previous white papers).

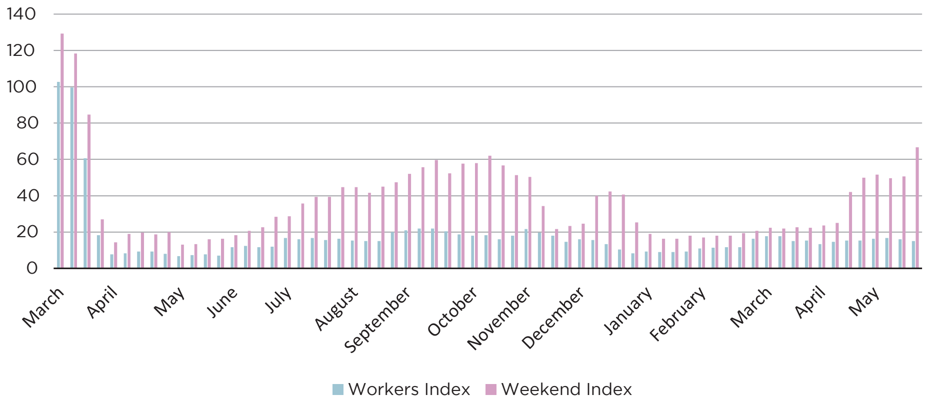
Urban Transport Usage (as percent of equivalent week 2019)

As things stand, urban transport usage has yet to recover to pre-pandemic levels. The chart illustrates the drop in subway ridership since stringent lockdown measures were implemented, in London, Boston and Madrid. This serves as a useful indicator for commuter traffic. Transport usage in all three cities dropped to below 10 percent of pre-pandemic levels in April 2020. Since then, ridership has fluctuated as lockdown measures have been ramped up and relaxed. A year on and urban transport usage has yet to recover, with ridership still down 40 percent on average across the three cities analysed.
Source: Metro Madrid, MBTA, UK Department for Transport



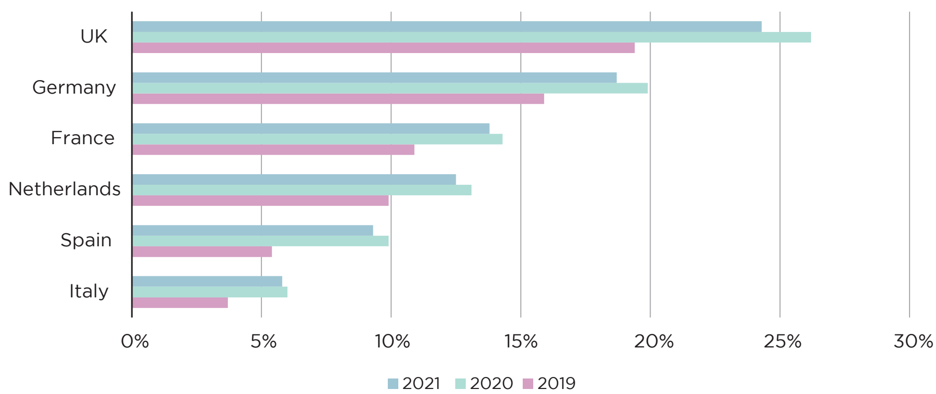
Average Worker Index and Weekend Index, UK

Urban centres have suffered a sharp drop in both worker footfall and weekend visitation. The chart depicts the average index of city centre workers and weekend visitors compared to a pre-lockdown baseline of 100, in Manchester, Birmingham and London. Worker footfall has remained low throughout the pandemic, breaching 20 percent of pre-pandemic levels for just a short period during September last year. A stronger recovery in weekend visitation makes for better news, although still sits at less than two thirds of pre-pandemic levels as of May 2021. Source: Centre for Cities



Changes in Online Shares of Retail Trade (2019-2021)

The pandemic has had a profound impact on the retail industry, with many stores forced to close during various lockdowns. Although the shift to online retail is certainly not a new paradigm, the pandemic has accelerated this trend with many consumers switching their spending online, away from physical stores. The chart below focuses on the online share of total retail trade in a selection of European countries. As shown, the share of online sales in each country jumped in 2020, reflecting this imposed shift away from visiting physical stores. The 2021 forecast shows that instore purchasing will claw back some of the share but a far higher proportion remains online than before the crisis. Source: Centre for Retail Research



BRINGING PEOPLE BACK

There is plenty of evidence to support the notion that major cities will see a drop in footfall in the short and medium term fall-out of the pandemic. The question for policy makers and indeed shopping centre owners and operators is how to bring people back to the city centres or malls, fill vacant property space and reshape these environments.

We expect residential property will feature quite heavily in absorbing some of the office and retail space in city centres. A recent announcement from John Lewis looking to develop residential at a range of their sites supports this notion. The long term structural undersupply of housing across the country means there is plenty of pent up demand for all types of housing. This is not the sole solution though. More residential units will bring a greater volume of local residents looking for leisure, and successful city centres will still need to attract visitors from both local and regional markets.

LDP, in conjunction with A Different View and Panelbase, conducted a survey of UK residents over the last month on their past and forecast consumer behavior. Some key highlights from this survey are shown on the following pages.

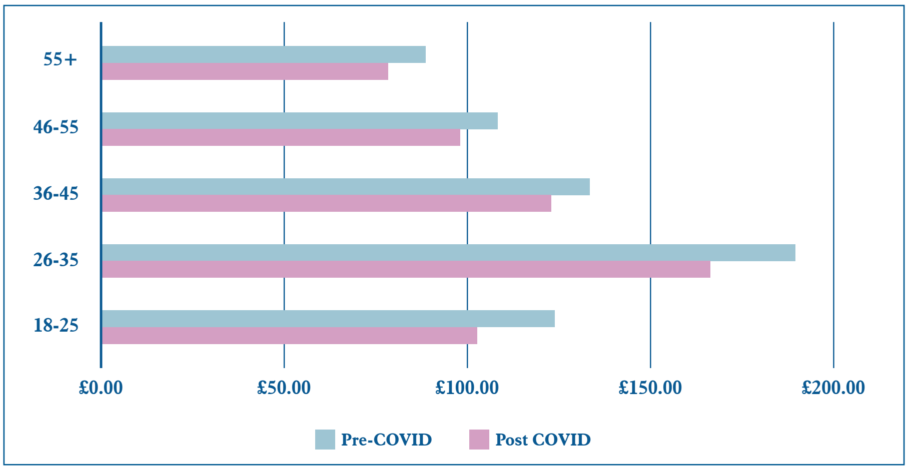
Survey of UK consumers (July 2021)

LDP worked with A Different View and Panelbase.com to design and execute a survey to gather data on people's shopping, social activity, and spending habits, prior to pandemic lockdown and anticipated post lockdown. The survey was limited to UK residents and their habits during lockdown and anticipations post the 19 July reopening. Further data from the exhaustive survey will be available at a future date, but we share key takeaways below.

The before and during

- Prior to the lockdown, 40 percent of survey respondents were visiting a large city centre / town shopping centre daily or weekly
- 18 percent of respondents indicated they also always participated in a social activity such as going to a cinema or restaurant while visiting and 57 percent said they sometimes participated in a social activity during their trip
- During the lockdown, respondents reporting spending less on clothing, housewares and jewellery and reported spending more on food, takeaway meals and drinks at home
- Survey responses indicate that the average amount spent across all categories (shopping, food & drink, entertainment) is likely to decrease across all age groups, post lockdown

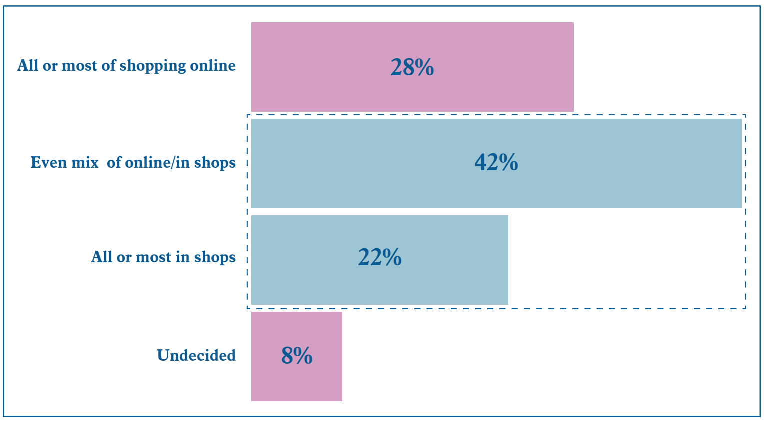
Spending Changes by Age Group



Online shopping versus in shops

- During the lockdown, 67 percent of respondents indicated their online shopping activity increase some, a lot or completely to online platforms
- After restrictions are lifted, 64 percent indicated they'll be doing most, or an even mix, of their shopping in shops versus just 28 percent fully online

Post Lockdown Anticipated Shopping Habits



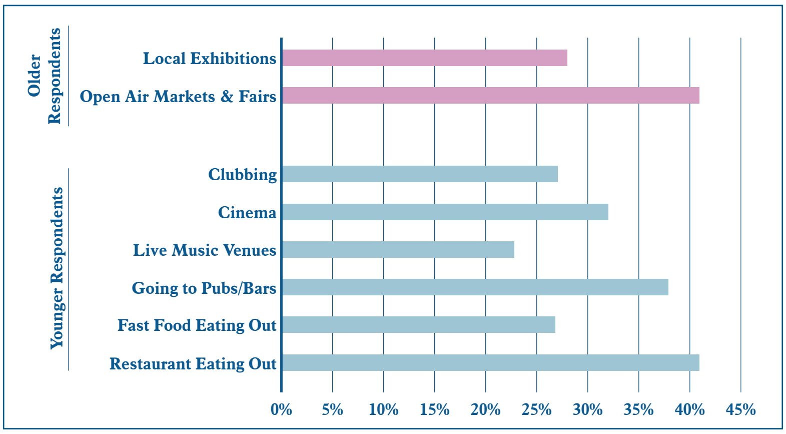
Heading back out?

- Caution ahead: 47 percent of the sample say that they retain Covid related concerns about visiting large towns and cities for shopping and social outings ‘now that government restrictions are being lifted’
- Yes please! Young adults, those 18 to 25 and those 36 to 45 were less likely to report concerns about heading out after the restriction lift; the other age groups were equally concerned and not concerned
- “Not wearing masks,” “crowds,” and “not socially distancing” were listed as the top concerns
- Those who visited shopping centres or social activities daily prior to the pandemic have the least amount of concern to head back out after the restrictions lift

What and who will drive future visits and spending?

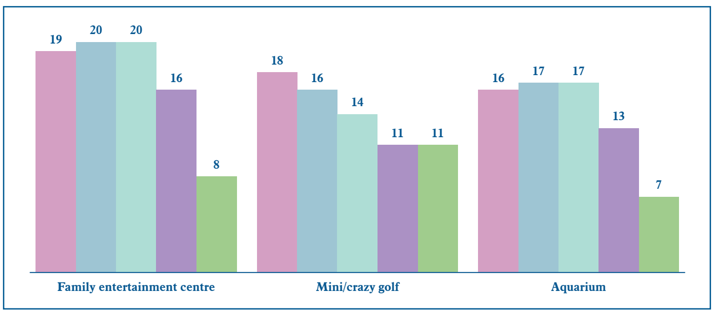
- “Free to view” live music events peak in interest with those 36 to 45, and “local exhibitions and open air markets” are consistently popular across the age groups, though peaking with older age groups
- 70 percent of younger respondents will be influenced to visit “pay to enter” attractions, such as a family entertainment centre (FEC), mini/crazy-golf, aquarium, adult game bar, extreme sport experiences, etc., while 80 percent of the older respondents report not being influenced by these offerings at all
- Younger respondents are ready to get back to social activities based around food and drink; older respondents will be influenced by “free to enter” and “outdoor activities”

Activity Level of Interest

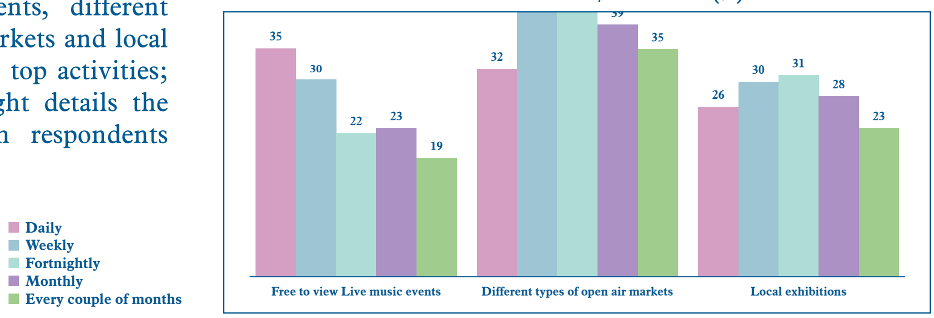


- When asked what types of pay to enter attractions or events respondents would visit more frequently after the lockdown, family entertainment centre, mini/crazy golf and aquarium were the top responses; the chart to the right details the frequency in which respondents indicate they’d visit
- In asking the same questions for which free to enter events respondents would visit more frequently after the lockdown, free to view music events, different types of open air markets and local exhibitions were the top activities; the chart to the right details the frequency in which respondents indicate they’d visit

Pay to enter events/attractions (%)



Free to enter events/attractions (%)



At LDP we believe leisure in the form of culture and entertainment should be at the heart of repurposed city centres. The creation of leisure and entertainment destinations could be a key pillar in supporting local and regional resident visitation as well as domestic and international tourists. Later in this paper, we discuss some case studies of where this has worked successfully both in city centres as well as shopping destinations.

Shops, bars and restaurants often work best if clustered together, creating choice and atmosphere. Entertainment uses behave in a similar fashion but also work well alongside retail and dining outlets. We believe the creation of retail, dining and entertainment areas or districts targeting a wide range of user groups across the day and week could enhance city centres.

Visitor attractions can drive young and older children, families, teens, young adults and adults to locations, benefiting adjacent retail and dining options.

In North America retail, dining and entertainment (RDE) zones are well established, particularly in some of the key tourist locations such as Orlando (e.g. Universal City Walk). In the UK, the South Bank in London has successfully adopted a similar approach by clustering the Sea Life Centre, Shrek's Adventure, The London Dungeons and the London Eye. There are multiple dining options, and the Royal Festival and National Theatre operate as anchors

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We already see this kind of strategy in shopping malls, where landlords are adopting more leisure as part of their tenant mix. In the Middle East and in particular the UAE, this is common practice to differentiate in a competitive mall environment. In Europe, planned malls are beginning to factor entertainment into their designs and existing malls are looking to fill vacant space with entertainment uses. In the UK, for example, the Trafford Centre has successfully integrated a wide range of attractions into the mall including an aquarium, Lego Discovery Centre, gaming areas, adventure golf and indoor adventure.

WHICH LEISURE?

If leisure and entertainment is to become an important component of the future of city centres it is important to understand which kind of leisure uses are successful in these kinds of settings. Larger scale attractions such as theme parks, zoos and waterparks are too land hungry to realistically be included as part of a city centre strategy. Cinemas are already well established in city centres and shopping malls and have very strong synergies with dining in particular. That being said, it is questionable now if they will have the same impact given the surge in streaming content seen over the past 15 months.

Additional attractions that do not require huge amounts of space and are symbiotic with the retail and dining would be the most logical. Clustering attractions that target different groups would also be beneficial. For example, a branded family entertainment centre (BFEC) that targets young families clustered with VR/gaming attractions that appeal to older children and teenagers, and competitive socialising attractions that appeal more to young adults and adults, could represent a successful mix. These attractions would drive footfall during the day, evening and night and would support adjacent shops, bars and restaurants.

The accompanying table summarises some broad attraction categories, their broad appeal, how far they draw from, how repeatable they are, seasonal demand patterns, economic performance, space requirement and fit with mall and/or inner city environment.

Attraction Categories	Appeal	Draw	Seasonality	Repeatability	Economics	Space Requirement	Fit with Mall / City Centre
Amusement/ Theme Parks	Wide appeal, attracts multiple target markets, including both residents and tourists	Residents from two hours, and tourists staying within an hour. Destination parks induce tourism	Seasonal - depends on climate (mostly operate Spring to Autumn)	Low repeatability, seen as occasional treat rather than frequent visit per annum	Capital intensive, high spend, generates cash, anchor for more profitable uses such as hotels & water parks	Significant land requirement	Weak due to land requirements
Indoor Park	Families with children, plus teenagers & young adults depending on content. Mostly resident focused, though IP can drive tourist visits	Residents mostly from 30 minutes, but often up to one hour. Strong branding/IP can attract tourists staying in local area, and can widen resident catchment	Flat demand, peaks during school holidays	Medium repeatability	Lower capital costs (especially for child focused parks), solid spend per head, licence fees if IP	3,000 to 10,000 sqm	V. Strong
FEC	Typically families with children, sometimes teenagers. Resident focused	Attract residents from up to 30 minutes away, plus capture of mall footfall	Flat demand, peaks during school holidays	High repeatability	Lower capital costs, PAYG pricing structure results in low spend per capita on rides. F&B spend also low due to short stay but high throughput	1,000 to 3,000sqm	Medium
Aquarium/ Animal Attractions	Wide appeal, attracts multiple target markets. Resident and tourist appeal, plus school market	Attract residents from 60 minutes, and some up to two hours. Strong with school groups Achieves some penetration of tourists staying locally	Relatively flat demand	Medium repeatability	Medium capital costs, good spend per head, additional operating costs due to animal care, good profitability if well managed	2,500 to 5,000 sqm	Medium
Competitive Socialising	Young adults and workers. Mostly resident focused, some tourist visitation	Draws residents from 30 minute market, particularly office workers close by	Relatively flat demand. Peaks leading up to Christmas, good for weekday visitation and weekends	F&B, social component increases repeatability	Helps to be close to office population, strong spend per head, significant F&B spend opportunities. Events key to business model	500 - 2,500 sqm	V. Strong with city centres. Medium to strong with mall dependant on location

Attraction Categories	Appeal	Draw	Seasonality	Repeatability	Economics	Space Requirement	Fit with Mall / City Centre
VR/Gaming	Older children, teenagers and young adults. Resident focused	Draws from local 30 minute population. Larger attractions can draw from up to one hour	Flat demand	High repeatability	Low capital expenditure. Low throughput but strong admission spend, and some F&B opportunities	500 - 4,000 sqm	V. Strong
Indoor Adventure	Appeals to families, teenagers and young adults, depending on concept. Mostly resident driven	Draws from local 30 minute population. Larger attractions can draw from up to one hour	Flat demand, peaks during school holidays, less demand in summer if weather is good	High repeatability	Capital expenditure highly variable. High value, low throughput	1,000 - 8,000 sqm	Strong
Digital Art (Artainment)	Wide appeal - families, teenagers and young adults. Draws from both resident and tourist markets, plus school market	Attracts residents within one hour, plus tourists staying locally	Relatively flat demand. Tourist demand and school holidays can maintain attendance during summer	Relatively strong repeatability if concept easy to adjust and refresh	Lower admission and secondary spend, but solid throughput if the concept is well executed	1,000 - 6,000 sqm	Strong
Museums/ Cultural	Wide or narrow appeal depending on topic	Strong with visiting domestic and international tourists, and schools	Relatively flat demand but depends on the museum focus	Typically less repeatable unless temporary exhibitions are actively developed and promoted	Generally need government subsidy/ grants for development and ongoing operations	Wide range	Strong in the city centre, weak for mall

Note that the above chart should not be taken as the 'answer'. Not all attractions will work and have the impact required. They need to be considered in the context of the market dynamics and competitive environment. Every market is unique and there is no 'silver bullet' that can be applied to every situation.

ECONOMICS OF LEISURE

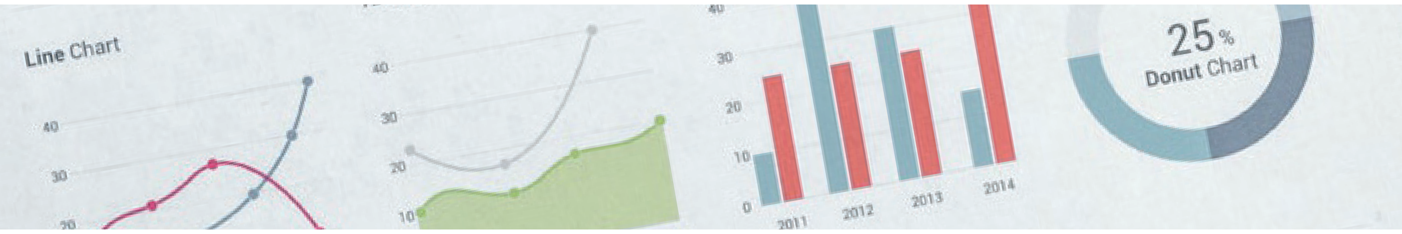
The main challenge with many leisure uses and attractions can be the economics. Attractions typically take up relatively large spaces and can rarely afford to pay rents at the same levels as commercial offices and retail. In mall settings, attractions are often treated as anchors and pay rents accordingly. There are many benefits to attractions in malls including: driving new visits; extending the drive times beyond typical mall catchments; increasing dwell time; and appealing to new audiences to name but a few.

We can envisage additional visitor attractions bringing the same benefits to the city centre and making them more appealing to visit for a wider range of people (please see our section on the findings from our primary research conducted). However, the same issues remain in terms of the raw economics.

Like mall owners, local government could play an important role in assisting the reshaping of the city centre facilitating new leisure and attraction development. Whilst mall owners have the final say on how their mall is filled, in city centres this is more challenging with multiple landlords and landowners. Planning interventions could be one-way; local authorities in particular can intervene to reshape the inner-city environment. Another is by incentivising leisure uses similar to what we described earlier by offering anchor rents in malls.

In the next section, we investigate some example business models that we have witnessed being constructed to facilitate the development of leisure in a mall or city centre environment.

CASE STUDIES



As part of our research, we reviewed a range of case studies of real developments that incorporated entertainment into their development (of ranging sizes). We focused on examples either in urban core locations for redevelopment or shopping centres integrating entertainment into existing facilities. From these case studies, more was learned about the business models utilised to enable such developments. Summaries of these examples are shown in this section. Note that many terms of the business models were confidential.

Case Study #1: Nickelodeon Adventure Lakeside, United Kingdom (Private Partnership)

Approximately 20 miles (32 kilometers) east of London, Lakeside Shopping Centre (Intu Lakeside) is a 2.6 million sq ft (240,000 sq m) traditional shopping mall that originally opened in 1988, and is adapting to the ever changing tide of retail commerce with major new additions in "retailtainment."

The massive retail centre has more than 250 shops, including anchor stores of Marks and Spencer, House of Fraser and Primark. Evaluating changing trends and the future of retail, a new leisure development section at the property was planned to open 2018, but debuted in February of 2020, due both to typical development setback and the COVID-19 pandemic.

The property owner worked with Parques Reunidos, the well-known Spanish based attractions operator, pre-pandemic, to explore leisure opportunities at Lakeside, intending to broaden the appeal and demand for footfall at the centre. After exploring various concepts, Parques and development partner Viacom landed on the Nickelodeon Adventure concept, most recently opened with similar concept design at Nickelodeon Land at Parque de Atracciones in Madrid in 2017 and Nickland at Germany's Movie Park in 2007. The concept is a branded family entertainment centre (FEC) with a focus on families with children aged 3 to 12, offering a variety of play and educational components with Nickelodeon characters and elements.

Nickelodeon Adventure at Lakeside is a 50,000 sq ft (4,600sq m) anchor as part of Intu Lakeside's leisure-focused £95m (US$137m, €120m) extension of the existing shopping centre. The new development is intended to adapt to the changing trends of how families socialise, expanding on experiences and making memories. As a major anchor of the new leisure section, Nickelodeon is joined by Puttshack, Vue (cinema), Upside Down House, Flip Out (adventure park), Partyman World (FEC), Hollywood Bowl, and Boom Battle Bar throughout the shopping centre, as major entertainment tenants for day out and weekend experiences.

Investment/Deal

Terms of the partnership between entertainment tenants and Intu are confidential

Case Study #2: Pier 17, Seaport District NYC, New York, New York (Public Private Partnership)

Pier 17 is one section of the larger Seaport District NYC redevelopment project, an area which was previously referred to as South Street Seaport. The area was New York City's primary port, starting in the 1600s and continuing through the early 1900s and was a hub for commerce (finance, sea trade and printing business) and was also home to a collection of the oldest bars and nightlife in the city, creating the first 24-hour district on the island and the phrase "the city that never sleeps."

In the 1980s, Pier 17 was established as a tourist destination and was one of the first redevelopment projects to repurpose original buildings into new uses. Inexpensive rents for developers were offered in exchange for the hope to drive residents, tourists and their dollars to the neighborhood with a new destination development. In 2012, Hurricane Sandy flooded South Street Seaport destroying buildings, and forcing businesses to close. Pier 17 is owned by the city, controlled by the NYC Economic Development Corporation, and is currently leased by the Howard Hughes Corporation, who has been redeveloping the property since 2013.

Designed by SHoP Architects, Pier 17 reopened in 2018 with a 370,000 sq ft building with a focus on dining and entertainment. The building has a large rooftop event area for concerts, a seasonal ice rink and leases prime space to well-known chefs and restaurant outlets including Jean-Georges Vongerichten, Momofuku and Andrew Carmellini. The ESPN Seaport District Studios also leases 17,000 sq ft for a radio and television studio.

The larger Seaport District NYC is home to the South Street Seaport Museum and a collection of high-end retailers including SJP by Sarah Jessica Parker, salon, barber shop, art dealer, IPIC movie theatre, Blazing Saddles bike shop, City Cruises, and the Imagination Playground.

Investment/Deal Structure

- Private, estimated at USD 785 million
- HH pays $1.2 million in base rent ($3.24 PSF for 370,000 sq ft) and charges tenants $200 to $300 PSF, potential annual income of $74 to $111 million
- Is there a percent of sales rent structure as well?
- Prior to redevelopment, HH was paying $600,000 annually for the mall space ($1.62 PSF) and charging tenants $100 a sq ft, or potential annual income of $37 million
- EDC has been losing money for years under current agreement (sources point to the base rent being very low and percent rent on sales is next to nothing, given no tenants since Hurricane Sandy)
- In addition to the mall deal, Howard Hughes will take over the cost of maintaining the aging pier — about $1.7 million annually — and pay $210,000 a year for the East River esplanade
- City is estimated to receive over $10 million in tax revenues (retail sales)

Economic Benefits

- Pier 17's redevelopment is estimated to generate over $260 million in total economic output and produce over 1,000 jobs
- Upon completion the result in economic activity of $193 million annually, including over $10 million in tax revenues to the city and 1,150 permanent jobs

Case Study #3: LEGOLAND Discovery Centre, Netherlands (Public Private Partnership)

In an effort to regain its place as the second most visited city in the Netherlands, The Hague set out to revitalize tourism in the city. Part of that effort includes the newly opened LEGOLAND Discovery Centre located in the Scheveningen neighborhood along the coastline. The attraction is Merlin Entertainment's 33rd Discovery Centre with the other locations spread across the globe; the Scheveningen attraction is the sixth in Europe and is intended to draw families with children 3 to 12 years old.

The site is located along a car free boulevard, near Hotel Kurhaus and the pier, and is adjacent to Merlin's popular SEA LIFE Centre. The 3,000 sq m attraction is comprised of a range a range of rides, LEGO play areas, a 4D cinema, MINILAND and classes from the LEGO master model builder.

Scheveningen has been a destination resort area since the early 1900s, popular for holidays. In more recent history, the visitor offering is focused primarily on the Museum Quarter which is home to Escher Museum and the Mauritshuis Royal Picture Gallery, the Historical Museum of the Hague, Gevangenpoort, and the Gemeentemuseum Den Haag. Other areas that draw visitors are the Royal District, with the king's palace, and the city centre. City officials are working to create more lively experiences throughout the different areas, including a possible "edutainment centre" and a live performance venue, perhaps along the lines of Cirque du Soleil, to extend the visitors length of stay and spend in the city, beyond the museum visit.

For LEGOLAND, the new attraction is part of a larger redevelopment along the beachfront. Merlin's SEA LIFE was the beginning of the change and a brand new boulevard and programming for leisure facilities and activities at the harbour will assist in rounding out the redevelopment. The city states the key to progress was a decision to be very proactive – investing in infrastructure and public spaces, actively reaching out to have conversations with potential developers and operators.

Merlin's leadership was enticed, stating that the most important factor for their selecting new projects is working with supporting partners, finding both developers and local governments and tourist authorities seeking high quality global attractions. They look for locations where they can be part of a mix of other premium attractions, retailers and leisure facilities.

Deal Structure

- Terms of the deal structure are confidential

Case Study #4: Distrito T-Mobile, San Juan, Puerto Rico (Public Private Partnership Case Study)

Originally referred to as District Live!, the now sponsored Distrito T-Mobile is a retail, dining, and entertainment (RDE) project recently opened in San Juan, Puerto Rico. The project was developed by Island Hospitality Partners, led by the PRISA Group, along with the Puerto Rico Convention Centre District Authority. PRISA is a well-known developer on the island, and is responsible for Dorado Beach Resort, anchored by the Ritz Carlton Reserve, the Dorado Beach Health complex, in conjunction with Johns Hopkins Medicine International, and two established hotels near the project site.

The project sits within the Puerto Rico Convention Centre District (PRCCD), is adjacent to the Convention Centre and positioned just southeast of Old San Juan. The site and project are well-located to draw visitation generally from convention visitors, general tourists, cruise ship visitors from the nearby San Juan Cruise Port Terminal and also residents living and working nearby. San Juan is a popular destination for the beaches, resorts, history of Old San Juan, restaurants, and nightlife.

The PRCCD was established as a redevelopment area in 1994 and has seen significant development in recent years. Prior to redevelopment, the land served as state government facilities supporting the old Isla Grande naval station. The pioneering project was the construction of the new convention centre, completed in 2005. Prior to development of Distrito T-Mobile, the project site was vacant land. The Distrito T-Mobile project was approved for development in 2010. Other adjacent uses to the project site include an active municipal airport and an active ship cargo area, which may be redeveloped in the future.

The project site is approximately six acres and Distrito T-Mobile covers 394,000 sq ft of built area. Anchor tenants include a 6,000 seat ASM Global performance venue (Coca Cola Music Hall), a Caribbean Cinemas Premium complex with an 8-screen VIP cinema, and a 177-room Aloft hotel. Toro Verde, the island's established thrill company, operates the Urban Park, an adventure, experience-driven, family entertainment centre (FEC) with zip lines, a ball maze, and a ropes course designed by Wowtopia, all atop a high tech VR gaming area. Additional tenants include various dining and entertainment tenants, showcasing authentic Puerto Rican cuisine, drink and culture. Also proposed are a "dayclub", think Los Vegas pool scene and aimed to appeal to the cruise excursionists, and a nightclub for residents and tourists. The project has a 44,000 sq ft open area plaza which offers an integrated stage, LEDs, and screen components for live performances. The development team has control of an adjacent 5.5 acres for future development.

Primarily a dining and entertainment destination, there is very little pure retail currently offered or planned at Distrito T-Mobile, representing the current trend to offer a more experienced-based product, versus a traditional shopping centre. San Juan has various traditional shopping centre developments which have struggled in recent years, not only from the effects of Hurricane Maria and the COVID pandemic, but as online retail has taken centre stage.

Historically, the traditional shopping centres in San Juan served as gathering places, both to escape the heat and spend time with friends and family. The developer envisions Distrito T-Mobile as a place for both residents and tourists to gather, experience the island's culture and have fun.

Distrito T-Mobile is a public-private partnership that is largely being funded by Banco Popular, Oriental Bank, Banco Cooperativo and the Bank of Economic Development.

Total investment of USD 88.9 million:

- $42.4 million from Banco Popular de Puerto Rico and Oriental Bank
- $3 million from Banco Cooperativo de Puerto Rico
- $8 million from the Economic Development Bank of Puerto Rico
- $27.7 million in capital from investors and the developers
- $8.0 million in other funding

Deal Structure

- Public private partnership with significant government involvement. The land for the project was owned by the government and contributed to the developer; the government has an equity share in the overall project
- Tax credits for the developer
- The developer owns a significant portion of the concepts at the project site and third party operators operate the restaurants, bars and experiences. (However it is more likely that the cinemas have a traditional agreement of base rent and percent of sales rent, and the music venue has an anchor bespoke agreement)
- Public Plaza is free for visitors, where they can enjoy live music and other entertainment – the plaza operations are funded via parking garage fees on site. The parking garage is on government land and the developer leases the space
- T-Mobile is founding naming partner; 10-year deal

Performance and Economic Benefits

- Performance
    - o Opening of the project was late due to COVID (exception of music venue and hotel); portions opened in spring 2021, official grand opening in August with 2/3 of tenant space full; developer will focus on second level tenants in fall 2021. Plans for nightclub, dayclub and others
    - o Since opening, the revenues at most of the components are exceeding pre-COVID estimates every month by 40 to 50 percent. Developer attributes this not only to pent up COVID demand and timing of the removal of restrictions in Puerto Rico, etc. but also as a huge validation of the vision for the project which was to focus on experience and entertainment, not traditional retail. This was both in part to meet the changing demands of retail trends (away from traditional shopping malls, more online) and also to showcase the culture of Puerto Rico which is based in socialising, dining, dancing, music, drinking etc. **They knew the upcoming, younger generations value experience over acquiring things – they prefer to spend $200 on a great meal with friends versus a pair of branded shoes – so they wanted to offer experiences and entertainment to meet that demand**
    - o At the AEG music hall, the pre-COVID projections were to book one event a week; upon opening prior to COVID they were booking 2 to 3 events per week with over 200 bookings made for 2020. Those were cancelled of course due to COVID but they're seeing similar bookings now that the music hall is reopened

EXAMPLE BUSINESS MODELS

Clearly most business models are confidentiality negotiated on a case by case basis between the owner/developer and the attraction operator/tenant. However, based on our research into the case studies as well as numerous feasibility over the years, we have seen certain patterns emerge in recent deals. Several examples of successful business models are shown below.

Business Model Type		Description	Capital Structure	Operations	Rent/Payments
Pure Rental/ 3rd Party		Existing operating companies become tenants – usually smaller attractions	Building costs by developer, tenant pays fit out	Tenant responsible for operations	Anchor rent paid to developer + franchise costs
Owner Operator		Developer invests and takes on operations	Developer is sole investor	Developer sets up own operating company. Consultant operating companies can be used	No rent, as pure ROI model
Franchise		Local investor invests and organise operations. Support from Corporate	Local investor provides capital	Local franchise sets up operations	Anchor rent paid to developer + franchise costs
Joint Venture	A	Global operating company with IP rights and concept partners with local developer	Local developer pays capital costs	Global operating company sets up operations	Guaranteed base rent to developer, profit share with developer
	B	Operations and development company with IP licensed developed concepts partners with local developer	Local developer pays capital costs with contribution from development/ operating company	Operating company builds and develops the attraction and operates	Anchor rent paid to developer and company takes management fee. Profits shared based on capital contribution
	C	Local developer invests and contracts outside operator – certain expertise needed	Local developer provides all capital	Outside operator sets up operations + continues involvement in operations	Set up consultancy fees and ongoing management fees
	D	Developer pays for a license to develop and operate an IP branded attraction	Developer pays all capital costs	Developer sets up own operating company to run operations of attraction. Consultant operating companies can be used	Profits to developer, ongoing license fees

In the accompanying table we demonstrate some example business models which we have witnessed during our work over recent years, which have mostly been in a mall setting but could easily be transposed to a city centre environment. We should stress these examples are based on real deals that we have been a party to, but clearly these numbers are confidential. Because these are only examples, one deal should be not considered the 'right' deal as these numbers are demonstrative only and the outcomes will be dependent on many factors.

In some instances we have seen the mall owner put up all of the capex (namely 'tenant improvement') for a project but take a flat rent which sees them get payback on the capital over a set period (whilst also benefiting from the secondary impact of having an anchor attraction). At the other end of the scale the owner might effectively waive the rent but offer limited tenant improvement. There are varying levels of risk and potential return under each scenario, but each model finds a way that is ultimately mutually beneficial to owner and operator. Note that all the inputs will vary based on local market characteristics such as size, spending power, competitive environment, mall performance etc. A thorough market analysis, strategic gap analysis and feasibility should be conducted in all cases.

Within each scenario we have included an estimate of secondary impacts to the mall i.e. net new visitors and the impact of spend and therefore rents. This calculation is often overlooked from an owner perspective but should feature heavily, particularly in the current climate.

Operator Perspective	Business Model 1 Shared Risk : Low Rent, Limited TI	Business Model 2 Sh. Risk : Reasonable Rent, Higher TI	Business Model 3 Profit Share (50%)	Business Model 4 Limited Operator Risk	Business Model 5 Limited Owner Risk
Annual Attendance	350,000	350,000	350,000	350,000	350,000
Per Capita Spend	£14.50	£14.50	£14.50	£14.50	£14.50
Revenues	£5,075,000	£5,075,000	£5,075,000	£5,075,000	£5,075,000
EBITDA Margin Before Rent	30.0%	30.0%	30.0%	30.0%	30.0%
EBITDA Before Rent	£1,522,500	£1,522,500	£1,522,500	£1,522,500	£1,522,500
Turnover Rent % @	4.0%	6.0%	0.0%	0.0%	1.0%
Turnover Rent	£203,000	£304,500	£0	£0	£50,750
Flat Rent	-	-	-	£1,000,000	-
EBITDA	£1,319,500	£1,218,000	£761,250	£522,500	£1,471,750
Resultant EBITDA Margin	26%	24%	15%	10%	29%
Total Capital Cost	£13,000,000	£13,000,000	£13,000,000	£13,000,000	£13,000,000
Owner / Operator Contribution (‘Tenant Improvement’)	£2,000,000	£5,000,000	£6,500,000	£13,000,000	£0
Simple Payback (Years)	**8**	**7**	**9**	**n/a**	**9**
Simple ROI	**12%**	**15%**	**12%**	**n/a**	**11%**

	Business Model 1 Shared Risk : Low Rent, Limited TI	Business Model 2 Sh. Risk : Reasonable Rent, Higher TI	Business Model 3 Profit Share (50%)	Business Model 4 Limited Operator Risk	Business Model 5 Limited Owner Risk

Owner/Developer Perspective

Direct Income

Turnover Rent Income	£203,000	£304,500	£0	£0	£50,750
Flat Rent Income	£0	£0	£0	£1,000,000	£0
Profit Share	-	-	£761,250	-	-

Indirect Income

Net New Mall Visitors @25% of Attraction Visitors	87,500	87,500	87,500	87,500	87,500
Implied Net New Mall Spend Per Head	£25	£25	£25	£25	£25
Additonal Mall Spend	£2,187,500	£2,187,500	£2,187,500	£2,187,500	£2,187,500
Resulting Rent From Additional Mall Spend @8%	£175,000	£175,000	£175,000	£175,000	£175,000
Total Direct & Indirect Revenues	£378,000	£479,500	£936,250	£1,175,000	£225,750
Tenant Improvement Allowance	£2,000,000	£5,000,000	£6,500,000	£13,000,000	£0
Simple Payback (Years)	**5**	**10**	**7**	**11**	**0**

CONCLUDING POINTS

Leisure activities and attractions (both free and paid) can help draw people to city centres or shopping malls with more frequency. This has been shown both by primary research recently conducted as well as proven case studies

Based on the survey of UK consumers (see subsection on primary research), there is an opportunity with the sub-group of people who anticipate a mix of online and in-store shopping. This is the sweet spot which is currently up for grabs

Another opportunity post COVID is to target the younger adults as they are less likely to be worried about crowds and have shown they do not intend to decrease spend and that attractions would increase their propensity to visit

This has to be seen as a partnership between the developers and attraction operators, not the more traditional landlord/tenant relationship. The partnership models where the operator and developer share the capital investment risk are shown to be more beneficial for both parties

Deals and business models will often be bespoke to the specific situation. Larger urban regeneration projects might often need government participation and public/private partnerships to enable the project. This could result in significant economic impacts for the city

Attractions and leisure can also increase spend in local businesses as they will extend the length of stay of existing visitors

The type of leisure should reflect the characteristics of the market and core points of demand