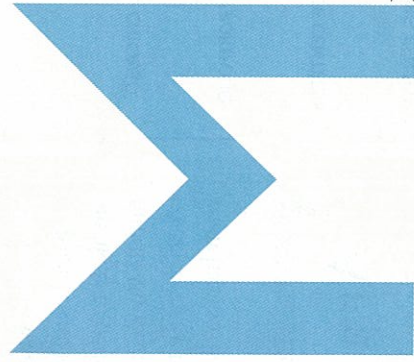


Entertainment wizard

MERLIN IS SEEKING TO BRING SMALL-SCALE LEGOLANDS TO SHOPPING CENTERS

By Maura K. Ammenheuser



MERLIN WANTS TO WORK SOME MAGIC in U.S. shopping centers. Merlin Entertainments Group operates 52 themed attractions in 12 cities in Europe and Asia, and recently the company has begun a push into the U.S., with an eye on its malls.

Despite the rise of Internet shopping, consumers still want a physical experience, so brick-and-mortar shopping centers will continue to draw them, says Howard L. Samuels, president of Los Angeles-based Samuels & Co., which helps Merlin with site selection and leasing.

Merlin claims to be the second-largest themed-attraction company in the world, behind The Walt Disney Co., entertaining some 32 million visitors year. The company operates a slew of tourism and entertainment-related attractions and is now pushing expansion through its four major brands: The Dungeons, Legoland Discovery Centres, Madame Tussauds wax museums and Sea Life Centre aquariums. Merlin also runs the London Eye, an observation Ferris wheel that provides sweeping views of that city.

Merlin owns four Legoland theme parks, one each in Carlsbad, Calif.; Denmark; Germany; and the U.K. These are 100-to-200-acre amusement parks for children between 4 and 12. Their theme, as the name makes clear, is Legos, the hugely popular, plastic interlocking building blocks. Legoland Discovery Centres are smaller versions of the Legoland theme parks, measuring roughly 40,000 square feet and containing a smaller selection of the offerings. These LDCs feature a ride, a 4-D movie (special effects constitute the fourth dimension), miniature replicas of their host cities built from Legos, a children's play area and a boutique. Like other Merlin attractions, LDCs put a local spin on their content. Besides those mini-cities, they depict figures of local importance, made from Legos—in Chicago, that means Michael Jordan or Oprah.

The first LDC is to open this summer at the Streets of Woodfield, a Schaumburg, Ill., lifestyle center. The second is scheduled for next spring, at 44,000 square feet inside the 2.3 million-square-foot Meadowlands Xanadu retail-sports-entertainment complex, going up in East Rutherford, N.J., and slated to open in November. At

spin with views of the New York skyline.

Merlin seeks more U.S. retail centers for its attractions. Samuels says the company will open four or five 25,000-to-40,000-square-foot attractions per year worldwide, roughly one per brand, two or three of them in the U.S. Merlin is willing to buy its own land or to lease and can open on multiple levels, he says.

It typically takes \$7 million to \$10 million and seven to nine months to build these attractions, Samuels says, though he would discuss no revenue projections, other than to say that it depends on the pricing of each attraction. The typical ticket ranges between \$18 and \$25, and Merlin claims some 300,000 to 500,000 visitors a year.

Visitors spend 90 minutes to two hours, on average. “Afterward, you come out, you’re going to be hungry,” Samuels said. Therefore, it is natural to place these attractions at shopping centers that offer restaurants. But Merlin wants centers with regional pull in major U.S. metropolitan areas with heavy tourist traffic. “The LDC in Schaumburg is part of a 630,000-square-foot lifestyle center, one block from a super-regional mall,” Samuels said, referring to Woodfield Mall. Xanadu will have its own gravitational pull on the tristate New York area, says Derek Coss, Meadowlands Development’s executive vice president of strategic planning.



NEXT STOP: YOUR MALL?

Merlin has Dungeons in five European cities. Merlin operates the London Eye, an observation Ferris wheel. The company will introduce a similar ride at Xanadu, with PepsiCo as sponsor and Meadowlands Development as builder. The Pepsi Globe will rise 287 feet high and take about 1,000 passengers at a time for a 25-minute

Merlin seeks sites with no similar attractions within an hour's drive, and it places only a single LDC or Sea Life in any given market. "One challenge is getting landlords comfortable with who we are and what we're about," Samuels said. Meadowlands Development got comfortable with Merlin pretty quickly. "They've

always been on our radar screen," said Coss. The company has impressive market share, Coss says, and the number of attractions it runs in Europe, together with its financial backing are equally impressive. Private equity firm Blackstone Group owns 55 percent of Merlin; the Kristiansen family, which founded Lego, owns

20 percent; Dubai International Capital owns 20 percent; and Merlin's senior management holds the rest.

"They've got Blackstone — that's huge," said Gary Ragusa, executive vice president of The Greenberg Group, a Hewlett, N.Y.-based development firm. "Blackstone's a bunch of smart people."

The U.S. has had entertainment components in retail centers for about a decade, but few are as well capitalized as Merlin's offerings, says Samuels. It is unclear how much additional traffic or revenue such entertainment components bring to a center, but Ragusa says they can be helpful. "It's a huge driver of traffic and business to the centers," Ragusa said. As to what works and what does not, that is anyone's guess, he says. "Look at the community and see what's missing."

Ragusa suspects that themed attractions are likely to perform better in secondary or middle-America markets than on the coasts, because the biggest coastal cities already have so many entertainment options.

At a glance...

MERLIN ENTERTAINMENTS GROUP

Poole, Dorset, England

No. of stores:

52

Preferred locations:

Major regional malls, lifestyle centers, freestanding sites

Leasing contact:

Howard J. Samuels, Samuels & Co. Inc., (310) 203-8301

Entertainment was the magic bullet for Kaleidoscope Courtyards, in Mission Viejo, Calif., says Michael Israelsky, president of Summit Team, which manages the center. When the current owner, K.T. Kaleidoscope, acquired it, the center was about 60 percent occupied. Summit added a 12,000-square-foot gaming center, a day spa, some restaurants and a 10,000-square-foot sports shop with an indoor skating demo area, among other tenants. These changes turned the center around, says Israelsky.

Still, entertainment uses can affect parking, discourage spending on retail and potentially encourage teens to overrun the property, he says. The landlord must market the experience to the right customer.

Leasing to themed attractions is typically handled differently from conventional retail anchors, sources say. The terms are longer, perhaps 20 years rather than 10. Entertainment anchors can offer novelty, however, and developers are always looking for new concepts to help make their shopping centers stand out, notes Ragusa.