

Filling The Void

As retail owners seek to find new concepts that create experiences and draw customers, retail expert Howard Samuels gives some tips on working with this new generation of tenants.

Interview by Randall Shearin

Howard Samuels knows a thing or two about new concepts. For more than 30 years, he has represented retailers, entertainment concepts and restaurants seeking to find space in traditional retail environments. As president of Samuels & Company, he's navigated deals with many of the nation's largest landlords and introduced many new concepts to retail environments. SCB recently interviewed Samuels to get a take on what new concepts need to make a deal, and the disconnect between landlords and this new breed of tenant.

SCB: Do you feel that retail landlords don't understand entertainment concepts as tenants?

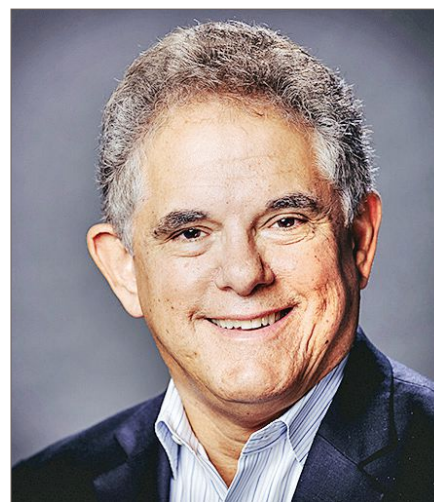
Samuels: We're at a significant crossroads in our industry between how retail leasing and development has traditionally been done versus new trends in consumer behavior. From my perspective, this is more than the way the retail shopping center world has been doing business for the last 60 or 70 years. Technology is causing seismic change — especially among different generations in terms of how they use it within the context of consumer behavior. My impression — based on many meetings over the last 12 to 24 months, especially among institutional owners — is that location-based entertainment doesn't just fill boxes. A fundamental rule of our industry used to be that if you had a fashion product or another kind of retail use, as a landlord, you would take the time to learn the business model and figure out the best way to merchandise your existing properties. Today, perhaps due to the influence of Wall Street, landlords are taking empty boxes, reaching out to concepts and asking, 'can you fit in



John Reed Fitness is a new fitness concept by 1UP Fitness Group. It's style blends an Asian aesthetic with street art and industrial tones.

that space?' For most location-based entertainment uses, the answer is no. You don't want to develop a location-based entertainment (LBE) concept on the third floor — it needs to be near high footfall and other leisure offerings, and you need to understand their business model in order for the concept to be successful in your property. Entertainment concepts are driven by visitation; revenue-per-cap for visitors; gross revenue, operating costs and Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA). If EBITDA is not at least a 20 or 25 percent, a location-based entertainment concept will ultimately fail.

SCB: Is another one of those misconceptions the amount of tenant improvement or co-development dollars needed in deals involving these concepts? A retail owner almost has to become a partner, correct?



Howard Samuels,
Samuels & Co.

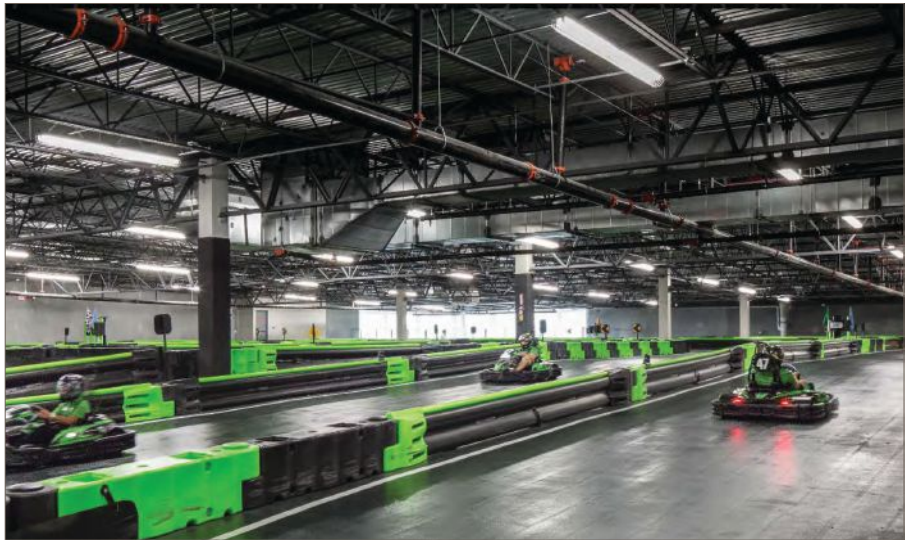
Samuels: That is a big item. My inclination is that tenant improvement allowances for a location-based entertainment concept are totally different than what is needed for a traditional retail tenant. A lot of landlords will

give you \$100 or \$200 per square foot; but the operator needs \$400 or \$500 per square foot; and most landlords have no idea of the business model for successful LBEs – they'll never be able to pay the rent, and in year six or year eight, they will go out of business. A lot of landlords adopt the mentality of, 'I'll worry about it years from now.' We've represented many well-funded and well-heeled, location-based entertainment concepts, and we see landlords doing transactions with start-ups with no capital, no guarantee and no financial track record just because they're willing to take the landlord's money and open for business. Most location-based entertainment tenants can only afford nominal gross rents; but they bring a lot of bodies to the property and the landlord needs to have a complimentary mix of other leisure offerings – including restaurants and shopping. It will all collectively become an attractive environment that you cannot accomplish on the internet. The biggest challenge to our industry today is ecommerce, which is just starting and went up 18 percent last year. I believe that ecommerce is now approximately 20 to 25 percent of total retail sales; especially when you speak with most merchants. The one segment that hasn't been penetrated yet is the middle income or 'middle class' sector, like T.J. Maxx, Ross Dress for Less, Marshalls and Target. In three to four years, 3D printers will be able to manufacture sweaters, pants and shirts at home. The key to the future is offering what you cannot do online – a place to have dinner, see a movie or bowl or play pool with friends. The shopping center industry needs to recreate itself as a gathering place where people get together for unique experiences, they can't have online. Those who don't recognize this emerging trend may have their head in the sand.

SCB: Along those lines, what are some of the unique things you're seeing as you're working with these concepts? What are developers or owners receptive to?



Andretti Karting is opening locations; the concept requires approximately 80,000 to 90,000 square feet of space.



Inside Andretti Karting's Orlando location. The concept goes beyond kart riding, providing a full arcade, bowling and other entertainment-oriented attractions.

Samuels: The current trend with most landlords is being driven by what kind of rent they can get, not what kind of experience they can offer; how precious the IP may be (intellectual property); or how successful the operator can be two or three years from now. Little attention is being paid to the internal proforma of the operator, while more focus is centered on the financial proforma to pay rent. Real estate is a necessary evil for location-based experience concepts. It really comes down to how good of an operator they are and whether or not they can design, develop, build and operate attractions properly. Those that can do it are a

small handful. Representing Merlin's concepts; Andretti Indoor Karting & Games; 1UP Fitness and Big Al's, among others, we've worked with landlords that sign leases without even going to see the concepts in-person. It's shocking. People don't want to walk through and understand the business model because they think they can answer all of the questions themselves. I think there's a huge amount of square footage that is going to have to be repurposed for multifamily, universities, corporate headquarters and mixed-use because the country is way too over-stored with retail square footage.

NEW CONCEPTS



Merlin Entertainments operates its successful LEGOLAND concepts, which Samuels has helped expand over the past decade.

SCB: Regarding the physical space, when you go to a meeting on behalf of a client, and the retail owner is very hungry for the concept, how is the concept being treated? Are you seeing any creativity with how retail owners create space for your clients?

Samuels: Yes; landlords are trying to be more creative in providing the required square footage, but for LBE's, it seems like the landlord's own walls often imprison them. For example, Andretti's requires approximately 80,000 to 90,000 square feet. Yet you would be shocked to see how many people present sites that are 50,000 to 60,000 square feet. Some landlords won't take the time to understand our requirements. It's a pleasure to work with professionals in our industry who take the time to learn, and explore these new concepts; and actually visit them.

SCB: Do you find more receptiveness from smaller landlords?

Samuels: It depends. Some larger landlords are willing to be creative

and step up. Some independent or smaller landlords want to take the time to really understand it. I think all parts of the industry – both large and small players – are being challenged dramatically by technology and consumer behavior. If we have a recession – and I think we may at some point in time within the next 12 to 24 months – or if a large quantity of big, anchor department stores hits the market at once, real estate professionals are going to have to change dramatically the way they do business. Even some architects and engineers are reticent to move away from traditional methods for designing retail properties. We need to discuss the issue, explore it and understand it in order to move forward successfully as an industry. The fact is that these are difficult concepts to learn about. Entertainment retailers must make money, and as a landlord, you must figure out how uses make money with their capital expenditures; who the operator is; and who is the guarantor. Take the time to figure out what works and

what doesn't and what fits well within your property. When it comes to entertainment-based concepts, one portion that landlords don't tend to understand at all is the number of corporate events these properties host. That's a big business that shopping centers of the past didn't focus on – it's a huge driver.

SCB: Are you seeing a growth in the popularity of pop-up retailers and temporary tenants?

Samuels: Yes, that's another big growth area. It can be a great addition to a center, but it's important to think about the experience it is offering within the context of the demographic and audience. That data will drive decisions like how long the pop-up should run. What I like the most is when there's a business model showing the capital expenditure needed to create it and to move it with the attendance numbers needed to break even or make a profit. It provides a tremendous freshness for fixed assets

that will continue to become more and more important.

SCB: What other trends are you seeing?

Samuels: In 2020, we're living in the age of uncertainty regardless of the political election. Things continuously change – it's constant. To me, current and future trends would seem to dictate that our industry embrace change and stay fluid; which is the antithesis of fixed real estate, costs and revenue streams. 'Can the world be a stage and everyone an actor?' Being a student of the world, our own behaviors and the future; how does one take lessons learned and fill it within your fixed real estate assets to be effective and have a meaningful business model? I think smart ownership and management can figure it out. There will be many opportunities to be successful. **SCB**



Next on tap for Merlin Entertainments is a concept called The Bear Grylls Adventure. The original concept opened in November 2018 in Birmingham, England.

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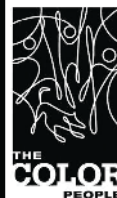
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