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Lifestyle Centers: New Study Informs Debate

Lifestyle centers became a full-blown phenomenon at the turn of the decade and remain the subject of much discussion and debate. Perhaps the biggest issue is that little empirical data exists to truly define what lifestyle centers are or who they serve.

Recently, national consumer research company Alexander Babbage completed a benchmark study of lifestyle centers that drew on two years of consumer survey data. They gathered and analyzed data from 36 regional and super-regional centers throughout the country and compared it to data from 20 lifestyle centers.

Many industry insiders assume that lifestyle centers — because of their size and typical tenant mix — attract a higher percentage of female shoppers, serve a comparably smaller geographic trade area and appeal strongly to “designer” shoppers who will pay more for style and workmanship.

These assumptions, according to the Alexander Babbage findings, are not fully supported by reality.

Research found that regional and super-regional centers draw from an average trade area of 786,000 people, while lifestyle centers draw from an almost equal number at 705,000. Findings also pointed out that 65% of shoppers at regional and super-regional centers are female, while lifestyle centers draw nearly the same proportion at 67%.

Shopper profiles at lifestyle centers do in fact differ from regional and super-regional centers in many ways.

During the study period, lifestyle centers attracted more Caucasian shoppers, more households with children under 18, and more affluent and older consumers. Much of the demographic differences are most likely attributable to the markets where lifestyle centers have traditionally been built. However, the fact that lifestyle centers draw from similarly sized trade areas and are only slightly more reliant on the primary trade area than regionals is strong validation that lifestyle centers can compete effectively despite their smaller footprint. Further supporting this argument is the finding that the average shopper expenditure at a

lifestyle center is \$87 compared to the regional/super-regional benchmark at \$75.

Another interesting finding is that shoppers who “prefer to pay the lowest price” and describe themselves as shopping “primarily for values” were just as likely to be found at a lifestyle center as they were at a regional or super-regional center. This discovery helps confirm what some have said is an opportunity to build lifestyle centers for more moderate income trade areas where more “value” shoppers exist.

We sat down with Alan McKeon, President & CEO of Alexander Babbage and Jim Farrell, Principal of Madison Retail Group to get their take on the findings and what they believe are the implications for retail real estate in the future.

Q: What surprised you most about the findings?

AM: The ability of the lifestyle centers to command a nearly identical trade area to larger, regional

shopping centers and the nearly identical representation of female shoppers. Our supposition going into the study was that trade areas for lifestyle centers would be approximately two-third's the size of regional malls and that female shopper representation would exceed 70%.

JF: I agree that those findings were surprising given the usual lifestyle center merchandising mix. It does, however, reinforce how much more compelling and universal the lifestyle center environment is compared to traditional regional centers.

Q: Do the findings shed any light on why some lifestyle centers are failing?

JF: A lot of lifestyle center developers that failed were chasing greenfields in outlying ex-urban locations where incomes and growth rates were high, but density was low. If lifestyle centers require the same wide population base as regionals, then all of a sudden the trade area map expands and the number of competing centers grows exponentially. Many developers simply underestimated their competition. The housing slowdown has only exacerbated these conditions.

AM: Ambiance will not carry the day. Those who visit for non-merchandise reasons such as a "pleasant atmosphere" and "fun things to see and do" deliver expenditures that are less than half that of those who shop for specific merchandise and stores. Those who shop for "fun things to see and do" deliver an average expenditure of \$37. By contrast, those who shop for adult apparel and accessories spend on average \$114.

Q: Do you believe lifestyle centers will continue to erode market share from regional and super-regional centers?

AM: Based on merchandise mix allocation, we would expect lifestyle centers to capture market share within certain specific categories that are in greater evidence at lifestyle centers. These categories include specialty food, restaurants, home decor/accessories, books and entertainment which typically have a lower space allocation in regional malls. Overall, however, we do not see lifestyle centers as being the dominant competitor to regional centers.

JF: Yes, especially if developers learn how to tweak the lifestyle center concept to appeal to more diverse audiences. The conveniences, amenities and ambiance of lifestyle centers have universal appeal. Most lifestyle centers today are located in predominantly white, affluent neighborhoods. The lifestyle centers of the future could continue to peel away at the regionals' market share by targeting other ethnicities and income levels.

Q: Are retailers and developers comfortable with and understanding of the lifestyle center phenomenon?

JF: It has been about 12 years since the lifestyle center concept really emerged and there is still a lot of learning to be done. After a few missteps,

I think developers are starting to understand how important it is to serve established markets. Retailers continue to embrace lifestyle centers, but they too need a better understanding of issues related to competition and cannibalization. The current economic malaise should help separate the good from the bad and provide both sides with a lot of lessons learned.

AM: We have seen a trend among both retailers and developers to gain direct insights from consumers during the site selection and development phase. As markets become more saturated, retailers and developers are becoming far more strategic by asking for consumer input with regard to merchandise mix, services and overall amenities and taking that into consideration before approving a project.

Q: What are the biggest factors influencing the future of lifestyle centers?

AM: In the short term (18–24 months) centers that offer primarily ambiance without a compelling tenant line-up will see less traffic and a lower incidence of purchases among those who do visit. Lifestyle centers that are well-leased, with a critical mass that includes a core representation of popular national tenants, should succeed in both the short and long term.

Lifestyle centers are vulnerable to increased competition for the up-market consumer — including the impact of the Internet. During the last three years we have seen notable increases in the use of the Internet among more affluent, well-educated mall shoppers — the same demographic that is most likely to also shop at lifestyle centers. Of course, a very basic factor that influences open-air lifestyle centers is weather. Inclement weather negatively impacts propensity to visit, visit duration, number of stores visited, visit frequency and in the end — overall sales. For these reasons we believe developers will become more selective about the regions in which they opt to build open-air centers.

JF: Looking 5–7 years out, one question is whether developers will be able to respond to population migration and increased ethnic influences. The composition of tomorrow's affluent shopper is not what it is today and retailers and developers alike will need to adjust their merchandising mix to attract them.

Community zoning and land use issues will also have a major impact. Density continues to be a rallying cry for urban planners, but we are seeing some communities begin to pullback from their density commitments because of the housing situation and general uncertainty in the market. It remains to be seen whether the pullback is a short-term reaction or a long-term trend.

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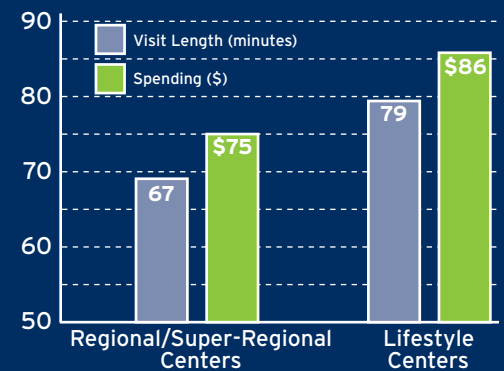
KEY FINDINGS

Key assumptions and findings of the Alexander Babbage "Lifestyle Center Benchmarks" study include the following:

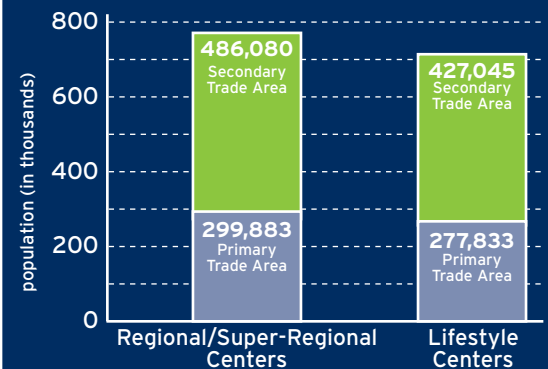
Definition of a Lifestyle Center

A lifestyle center typically contains upscale national chain specialty stores, dining and entertainment in an open air setting. It is not usually anchored by a single large tenant, but rather by a grouping of highly branded stores, along with such tenants as a bookstore and/or a cinema. There usually is an emphasis on design, landscaping and outdoor amenities such as fountains and street furniture.

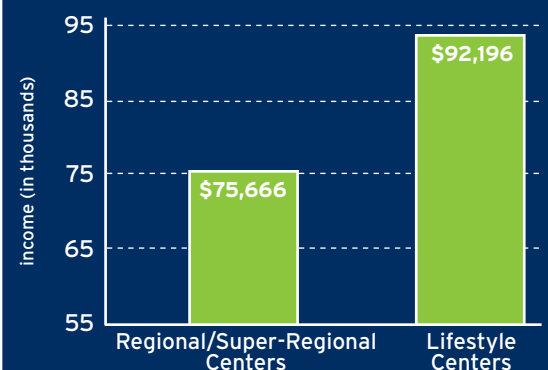
Lifestyle Center Shoppers Stay Longer, Spend More



Lifestyle Centers and Regional Centers Have Similar Trade Areas



Lifestyle Center Shoppers are More Affluent



Source: Alexander Babbage, Madison Marquette Market Research