



The shopping mall in the Marina Bay Sands hotel and casino complex, Singapore

With the growth and popularity of out-of-town shopping, developers are putting hotels into their schemes. *David Harper* looks at the latest trend for retail-hotel businesses

**T**raditionally, most luxury shopping was done in city centres, where there was a plentiful supply of quality hotels for shoppers who took more time to spend

their money.

However, with retail outlets now more focused on shopping malls, many of which are not located close to city centres, shopping centre developers around the world have increasingly started to include hotels in their malls, to meet the needs of this highly sought-after group.

In Kuala Lumpur, for example, it is considered essential to provide a range of accommodation for those who often fly to the city for shopping. The Gardens Hotel & Residences is located in Gardens Mall and close to Mid Valley Megamall, while the Grand Hyatt KL gives direct access to three shopping malls: Pavilion, Starhill Gallery and Fahrenheit 88.

Of course, Bangkok perfected this retail-hotel business model years earlier, with Siam Square (to name only one example) having a Novotel and a Holiday Inn Express, catering for mid-market and budget shoppers. This trend originated in the US, then was extended into the Orient, and is now pushing its way into the European retail market.

The nature of shopping in some consumer markets has changed radically, with retail becoming “an experience activity” rather than necessity. Full-day shopping trips and weekend retail breaks are now common and this has changed the retail mall designer’s requirements.

If the mall does not already have a suitable hotel nearby, it becomes important to provide the facility directly, preferably within the mall itself, or at the least with covered access. There is a definitive need to cater to, and indeed pamper, this valuable consumer group if the tenants of the mall are to

fully benefit from the spending power they bring.

Traditionally, this group gravitated towards taking long weekends to Paris, Milan, New York, Tokyo or London for their “retail therapy”, and such cities have always had a suitable supply of hotel options to meet all budgets.

However, as the retail experience has evolved, shopping malls located out of city centres have started to attract this group of shoppers and therefore they require the same facilities. Some groups from mainland China, for example, are famous for arriving at an airport and then taking coach tours straight to discount fashion malls. Where such malls have suitable accommodation on site, the time spent in the shops has increased – to the benefit of the mall’s retail tenants, as well as to the satisfaction of the shoppers.

#### What makes a retail hotel

A good retail hotel is governed by the same general principles that apply across the whole hotel market: catering to the needs of the customer. If the customer wants “ultra-luxury”, then providing budget accommodation will not meet those needs.

But retail hotels tend to have specific requirements over and above those of traditional hotels. Slightly larger room sizes are preferable, as “the ideal

guest” will need the extra space to store their purchases. Facilities such as spas and sports bars can be useful, to cater for those reluctant partners not wishing to shop.

Probably the most important factor is a clever use of the entry-level area. If the hotel takes up valuable “retail space”, then this should be used mainly for a restaurant or bar area, with stairs or a lift directly to the hotel reception on another level.

The restaurant and bar will ideally feel like a separate entity, almost independent of the hotel, and forming part of the mall’s food provision element. More careful consideration on access and layout is required where the operational arrangements of the shops and hotel differ significantly – such as with enclosed shopping centres, whose malls close outside retail trading hours. In these circumstances, separate and very visible hotel access should be included within the design.

#### What about the UK?

Planning authorities across the UK are looking in greater detail at new “out-of-town” shopping developments, and one of the keys to gaining consent in many cases is to demonstrate carefully planned mixed-use schemes.

Hotels complement retail developments, bringing a different employment use into the scheme, while generating different traffic patterns of customer use, effectively extending the times of the day when the development is being used.

Not only is this important to many planning authorities, it helps to enhance the viability of the scheme, generating potential income in otherwise quiet periods of the day for shopping malls.

The future for the retail hotel is evolving constantly, and varies from location to location. The ideal situation is where the hotel works closely with the retail outlets to maximise the crossover benefit to both occupiers.

## At a glance

- ★ The nature of shopping has changed radically in some markets
- ★ Out-of-town centres have begun to attract the wealthiest customers
- ★ High-spend shoppers will expect hotels close to retail outlets
- ★ Retail hotels need to have slightly larger rooms



Bangkok's Siam Square shopping centre was one of the first Far East retail destinations to be well served by hotels

**MIXING RETAIL AND HOTELS: DESIGN AND OPERATIONAL CONSIDERATIONS**

From an operational standpoint, combining shops and hotels within the same development has certain synergies, writes Alistair Brooks, chief executive of Commercial Real Estate Services:

- **Retail** – With small to medium-sized UK shops being valued via the zoning method, upper floors attract a relatively small value per unit of measurement compared with space at ground-floor level.
- **Hotels** – With the exception of trophy hotels, reception and entrance lobbies need not be on the ground floor nor immediately on-street, provided there is a decent transit.

On design, the similarities are:

- For both, there will be a high ratio of customers to staff using the property and parking.
- The functional and visual design will affect image, “customer experience” and, ultimately, spend.

Diversification is possible for investors:

- Each has different market drivers.
- They can “extend” a building's use time.
- Different income drivers and income streams (fixed rent, turnover rent, net profit/fees).

Hotel and retail customers will use common services at different times, in different intensities and in different ways. While hotels might have the largest floor space, they might not use the highest proportion of services (total or per sq m), so how these costs are to be equitably shared needs careful consideration.

Some luxury hotels have worked out a personal shopper/concierge system, where hotel guests get help to spend more in the retail units, whether planning their time more efficiently, offering extended shopping hours, or ensuring the full range of outlets is known about at the start of the trip.

Other hotels are changing to streamline their guest offer: reducing the restaurant and bar area, relying more on the other outlets contained within the mall, especially if it is a late-night outlet. Concentrating on “rooms”, which are the highest single profit margin department in a hotel, tends to improve profitability, and therefore allows the hotel to pay a higher rent.

From an investment perspective, there is evidence that retail hotels are bucking the worldwide trend, and more leases are being signed than is typical in the industry. Most hoteliers are keen to expand only through management contracts because of balance sheet liabilities for the parent company.

Although they generate more income for their owners than a comparable rent would in a traditional landlord-and-tenant relationship, the yield applied to the investment is softer, as the owners are effectively adopting some of the operational risk, so the values tend to be slightly lower. However, the desirability



of such locations means more and more hoteliers are prepared to consider a lease rather than just offering a management contract.

Such locations, combined with the obvious synergies for retailers and the developers of retail malls suggest that the future for retail hotels is bright. Providing a hotel that meets the needs of its retail customers is of paramount importance to the overall development, but also ensuring the flexibility to enhance services when required is also key to success in the future.

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