

Health and Wellness Tenants Create Multiple Synergies

Adding Health and Wellness to the Mix at Australian Centres Encourages Visits and Adds Value

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Abstract: Shopping centres around the world are incorporating health and wellness uses into their tenant mix, as they add value and bring beneficial synergies. This article examines shopping and expenditure patterns in Australia, particularly cross-shopping, and the implications for centre layout and tenant mix strategies. It also shows why incorporating health and well-being into the programming and design of retail environments makes commercial sense, even if the return on investment is not immediately apparent.

The retail property sector is facing a challenging environment. As shopping centres continue to evolve from enclosed big-box retail destinations to broadly based mixed-use space, prudent landlords regularly re-evaluate their tenant mix plans and offerings to remain relevant. Against this backdrop, health and wellness (H&W)—consisting largely of hospitals and day surgeries, medical and allied health services, and wellness uses, activities and other well-being drivers—has emerged as an important component in the mix of uses for shopping centres of all sizes to consider. The evidence from Australia is compelling.

The introduction of H&W uses and spaces—from major facilities such as hospitals and gyms to simple areas for Pilates classes—is an increasingly popular global trend involving extending dwell times, adding destination appeal, creating mutually beneficial synergies between uses, and sustaining a higher level of “quality income,” both directly and indirectly. In Australia, for example, over

the last three years, 60% of shopping centres have increased their formal H&W floorspace and are focusing more on creating informal spaces.

Types of H&W uses and activities

H&W uses and activities fall into three distinct categories:

1. *Hospitals and day surgeries:* These tend to locate in broadly based commercial, retail and entertainment clusters, but not necessarily within the core of commercial nodes, nor within managed shopping centres. The clustering of uses in multi-faceted activity centres is logical and usually planned. However, there is no reason why these types of uses cannot be incorporated within, or at least linked to, traditional managed shopping centres. Indeed, this is starting to happen in new and emerging centres in the growth areas of Australia.

Lessons Learned

- The amount of space allocated to formal health and wellness (H&W) uses has increased in 60% of centres across Australia over the last three years.
- Shopping Centre Type Expenditure (SCTE) accounts for around 61% of all electronic card (i.e., mostly credit and debit card) spending in Australia, with H&W-related consumer spending around 7.0% of SCTE.
- H&W uses attract people to shopping centres during quieter periods for traditional retailers. Card data shows that 46% of H&W spending occurs between 8am and 1pm, compared with 33% of retail spending for the same period.
- In Australia, average retail spending at shopping centres equates to \$104 per visit, but jumps to \$123 (an increase of 18%) on the day of a H&W transaction.
- On average, approximately 4% of specialty space is occupied by formal H&W uses across all Australian shopping centres.
- There are very clear synergies between formal H&W uses and some shopping centre tenant types, with H&W customers directing a higher percentage of spend to pharmacies, services, fashion, department and discount department stores, and supermarkets.
- H&W data is challenging to capture. Existing tenant classification systems are one issue but variation in Australian government rebates and turnover reporting complicate matters further.
- Targeted research is required into the importance of general well-being drivers to the performance of shopping centres.

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2. *Medical and allied health services*: These are the most commonly found H&W uses in shopping centres. They are an increasingly important non-retail component, as evidenced by the growing number of providers located in all types of centres, from neighbourhood to regional centres.¹ The co-location—or, at the very least, the presence—of H&W uses reinforces the relevance of a location and encourages repeat visits for a variety of needs. As uses that rely upon human interaction, they are therefore likely to be more resilient than other store types in the current challenging environment.
3. *Wellness uses, activities and other well-being drivers*: General wellness uses and activities are different in nature. Unlike hospitals and medical services, this type can be either formal or informal. *Formal uses* (gyms, day spas, clubs, massage and nail bars, and the like) have clear financial benefits for shopping centre owners. They require a permanent or semi-permanent footprint, and pay rent. Conversely, *informal wellness activities* are unlikely to pay much, if anything, for their space. Their power, in a digital age consumed by technology, lies in adding value and contributing to the sense of place. In embracing H&W uses such as yoga, Pilates, karaoke, personal training, mother's groups, H&W education, to name a few, shopping centre owners can create genuinely free community spaces for people to interact and experience their centres. They are also another reason for potential customers to visit, dwell, become familiar with a centre, and hopefully shop. Other aspects of shopping centre development and management related to H&W can be labelled '*well-being drivers*' that make people feel good about visiting a centre. These go beyond the basic requirements that go under the broad term 'shopper experience' to encompass emotional triggers of safety and relaxation. Shoppers will then identify with some places more than others, and will be more exploratory and loyal, if they have a sense of belonging, including a perception that their peer group are also customers. Well-being drivers vary from place to place, and will be affected by the contributions of colour and sound specialists, urban designers, landscape architects, and other design experts.²

Quantification and integration of uses

Ultimately, any tenant mix or capital expenditure initiatives must quantifiably improve sales and income over and above a base case in order to convince investors of the merits. The objectives are those typically applied when considering any use or activity in a retail environment: to include and position uses to maximise

drawing power, patronage and customer retention, as well as enhancing centre-wide traffic (i.e., cross-usage) and length of stay.

Hospitals and day surgeries, as well as medical and allied health services, are quantifiable and the direct commercial return is measurable. This is an area requiring further research in order to determine optimal requirements and return on investment (ROI) metrics.

Each H&W use requires a different approach for successful integration in a traditional retail environment. The approach adopted will also depend on individual circumstances and the needs of the markets served. The following analysis provides some guidance relating to general relevance and symbiosis.

In the case of hospitals and day surgeries, it is important to recognise that the target markets are likely to be visitors more so than patients.

Three questions help quantify H&W uses

Quantification of the various H&W uses begins with answers related to three key questions:³

1. What is the level of sales activity relating to the uses we have categorised as capturing Shopping Centre Type Expenditure (SCTE)? (These include H&W businesses that benefit from household expenditure, and hence card usage, during each visit.)
2. When do customers tend to use H&W businesses, and is the time of visit similar to retail activity?
3. How does retail expenditure vary from the norm and across categories when H&W activity is involved in a visit?

Level of expenditure

SCTE includes spending on retail goods and services, entertainment, and H&W.⁴ The H&W expenditure captured by electronic card data understates the real value of the service due to government rebates and the like, which are common in Australia. However, the customer out-of-pocket component of the total fee is captured by the electronic card data, and is therefore instructive.

As seen in Figure 1, supermarkets/grocery stores account for 23.5% of card expenditure, followed by department and discount department stores (DDS) (9.1%), fashion retailers (8.6%), *health and wellness* (7.0%), cafes/restaurants (5.9%) and takeaway food (3.5%).⁵

This serves to highlight how important H&W spending is, and how relevant it is to incorporate such uses into managed shopping centres. The same goes for supermarkets and grocery stores,

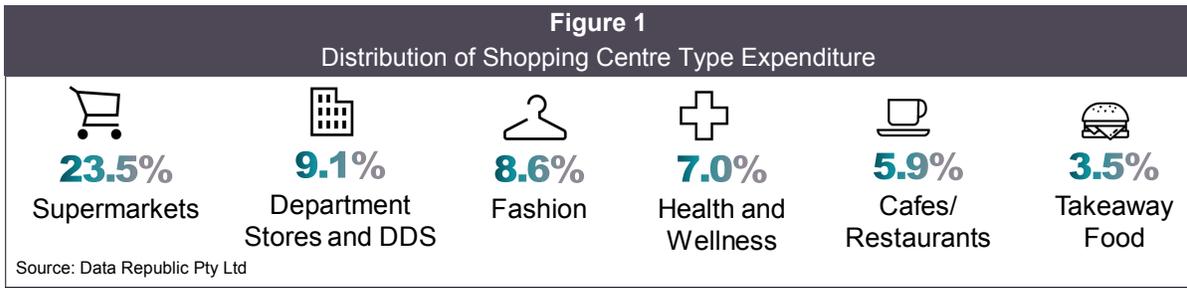
¹ Professionals in this category include doctors, dentists, orthodontists, chiropractors, physiotherapists, psychologists, medical equipment suppliers, counselling services, dieticians, etc.

² These professionals work, to one degree or another, from the concept of *biophilic design*—the notion, championed by the late social ecologist and Yale University research scholar Dr. Stephen Kellert, that relates to the human biological need for connection with nature on physical, mental, and social levels. Key principles of biophilia include: Visual connection to nature; that connection to nature via touch, smell and sound; air flow; presence of water; dynamic and diffused light; patterns and textures; materiality; places for refuge; and discovery.

³ The results relating to these questions derive from the more than 3 billion electronic card transactions sourced from one of Australia's leading banks, powered by Data Republic Pty Ltd. The database includes aggregated and deidentified (i.e., with all information that could identify the spender removed) credit, debit and EFTPOS (electronic funds transfer at point of sale) transactions for 27 months ending August 2017, covering all recognised merchants, both online and physical.

⁴ The merchant categories used to define H&W spend are: doctors, dentists/orthodontists, optometrists/ophthalmologists, hospitals, chiropractors, chiropractors/podiatrists, medical and dental labs, nursing/personal care, osteopaths, and ambulance services.

⁵ Data Republic Pty Ltd, op. cit.



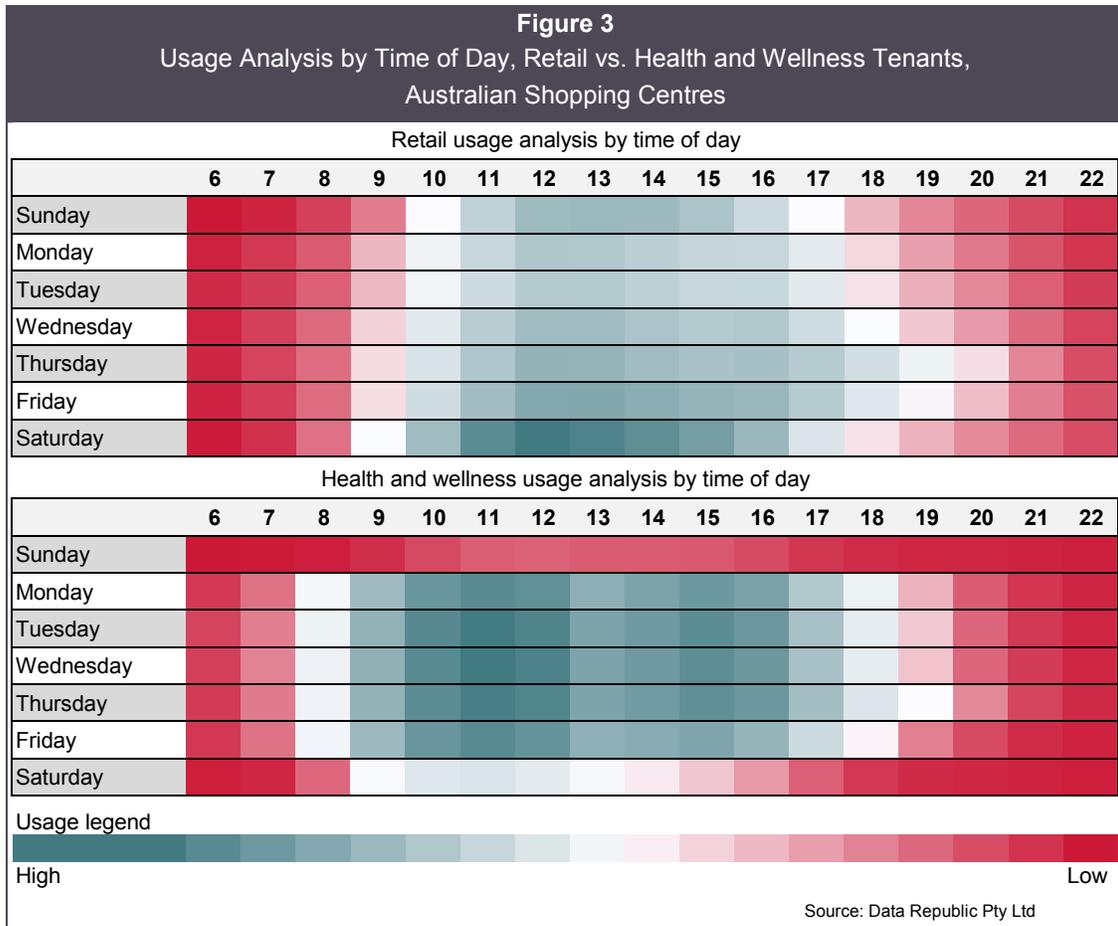
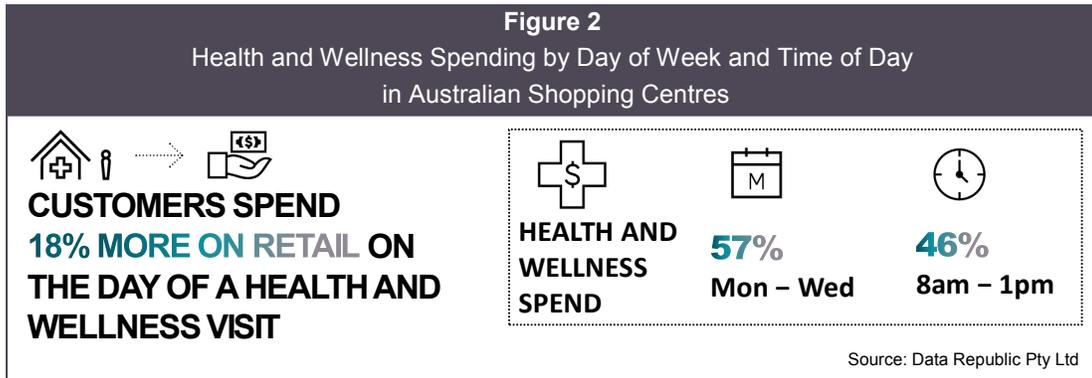
which are proven traffic drivers in shopping centres of all types in Australia.

Time of visit

H&W tenants benefit traditional retailers by increasing visitation and expenditure outside of peak hours, particularly in the

mornings. Some 46% of H&W card spending in Australia is between 8am and 1pm, compared with 33% of retail spending for the same period, as demonstrated in Figure 2.

Unsurprisingly, midday Saturday is the peak for retail spending, while the beginning and end of each day are less busy, as seen in Figure 3. For H&W it is a vastly different story. Some 57% of card



expenditure on H&W occurs from Monday to Wednesday. The busiest time is between 10am and 12 noon from Monday to Friday with some spending on Saturday and very limited spending on Sunday. To some extent this is due to Australia's trading hour restrictions.

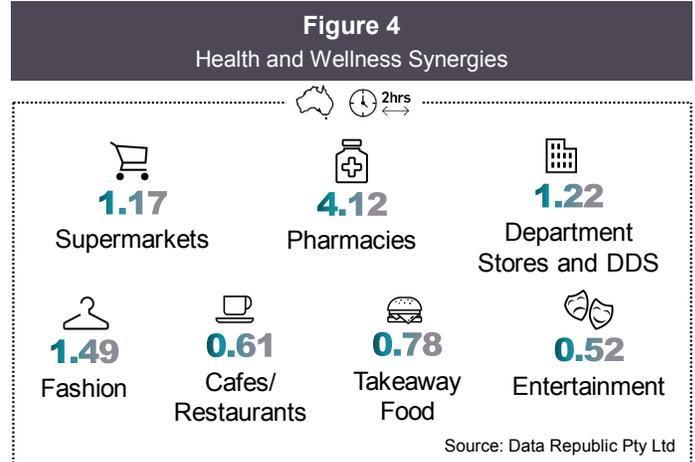
In other words, H&W is busiest in the morning, while retail in Australia is busiest from noon onwards. H&W tenants are attracting customers at times when traditional physical retailers are quiet and online activity is high. This has implications for car-parking utilisation and staffing levels, as H&W uses are more likely to even out traffic rather than create capacity constraints. They also provide another reason to visit a centre, building loyalty and broadening a centre's base.

Spending and cross-usage

Most importantly, H&W users are spending more when in a retail environment. In Australia, average retail card spending at shopping centres is around \$104 per visit. Card spending per visit jumps 18% to \$123 on retail goods and services on the day of a H&W transaction, with 80% of these transactions made within two hours of the H&W transaction.⁶

There are very clear synergies between H&W uses and some shopping centre tenant types. Conversely, there are also some uses where the nexus is low. Understanding the factors behind this provides opportunities for performance optimisation when deciding tenant locations.

Generally, H&W customers direct a higher proportion of their spending to pharmacies, dry cleaners, watch and jewellery repairs, fashion outlets, cosmetics stores, department and discount department stores, and supermarkets than other shoppers, within two hours of a H&W visit. They are less likely to use cafes and restaurants, takeaway food and entertainment.⁷ In Figure 4, any



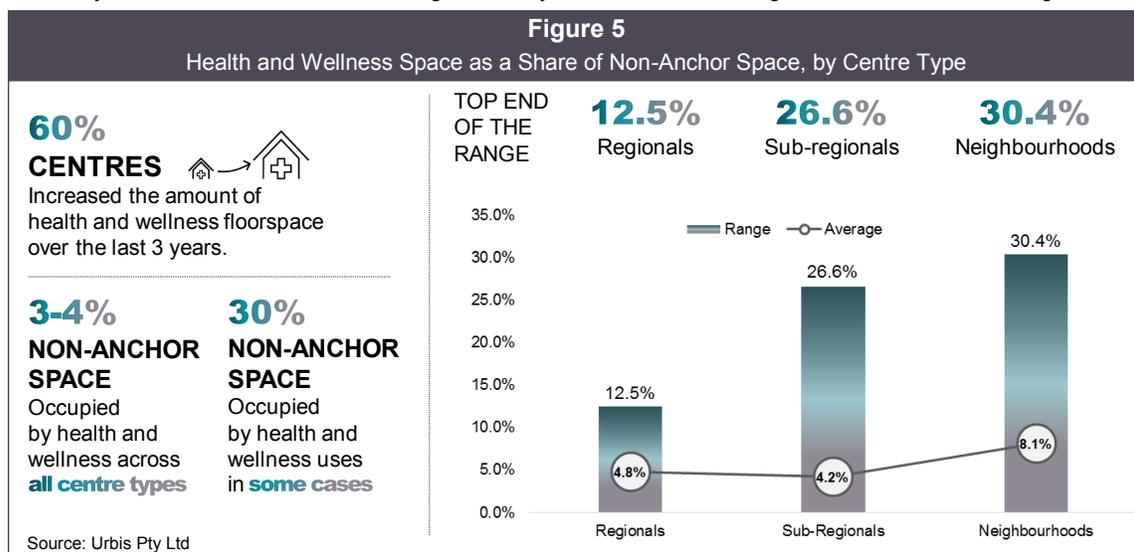
value greater than one signifies a higher synergy with H&W uses; conversely, a figure lower than one shows a lower synergy with H&W uses. These synergies have implications for tenant mix and scheme planning.

Increasing relevance

In Australia, space allocated to formal H&W uses has increased over the last three years in 60% of centres.⁸

When broken down by centre type, H&W space has increased in 75% of regional centres, 54% of sub-regional centres, and 58% of neighbourhood centres. This tells us that regardless of centre type and scale, formal H&W uses are of increasing relevance.

On average, formal H&W uses occupy approximately 4% of non-anchor floorspace across shopping centres. Excluding those without any H&W uses, this jumps to 4%-8%. In neighbourhood centres, up to 30% of specialty shop space can be devoted to H&W uses. Figure 5 shows the average allocation of H&W



⁶ Ibid.

⁷ Ibid.

⁸ For the purpose of this analysis it is necessary to use a different definition of H&W uses due to available data sets. The annual 'Urbis Shopping Centre Benchmarks,' now in its 26th year, aggregates data provided by most of Australia's shopping centre owners and managers. Use categorisation in this publication is based on reporting standards and guidelines adopted by the Shopping Centre Council of Australia. Based on data from the 'Urbis Shopping Centre Benchmarks,' the following are referred to as H&W uses: gyms/fitness centres, massage and nail bars, optometrists and medical centres. Unfortunately, the following are not covered by this definition: allied health professionals (physiotherapists, audiologists, chiropractors, etc.), as well as hospitals and day surgeries. There is, therefore, some inconsistency between the card-based spending analysis and this consideration of changing floorspace in centres.

floorspace as a percentage of non-anchor space by centre type, as well as the top end of the range for these types.

An opportunity not to be missed

All over the world shopping centre owners are constantly changing their tenant mix, and exploring new ways to engage customers in different retail and entertainment experiences. H&W

uses are part of this transformation agenda, as is health and well-being in a general sense.

Given the importance of creating positive customer experiences and a sense of community in shopping centres, and the beneficial effects to both traders and customers, owners and managers should be working towards a tenant mix that makes the most of the existing synergies between H&W uses and traditional retailers to create more resilient centres at all times of the day.



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