

# THE WALL STREET JOURNAL.

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MARKETS | PROPERTY REPORT

## Shopping Malls' New Product: Fun

Many U.S. malls are experimenting with entertainment-focused tenants



Destiny USA, a Syracuse, N.Y. shopping mall, offers immersive, hands-on adventures and other entertainment options.

PHOTO: DESTINY USA

By **ESTHER FUNG**

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Go-kart racing, indoor rope climbing and laser tag aren't activities typically associated with back-to-school shopping, but that is what some shoppers at a Syracuse, N.Y., mall are doing.

Entertainment offerings at malls have generally been limited to dining and maybe a multiscreen movie theater alongside the main draw of traditional retailers. But many U.S. malls, like Syracuse's Destiny USA, are experimenting with entertainment-focused tenants more likely to be found in an amusement park than a shopping center.

Among the newcomers: high-tech golf driving ranges, skydiving simulators and "escape rooms," in which players are locked and challenged to find a way out by looking for clues and solving riddles.

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### THE PROPERTY REPORT

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attractions are keeping people in malls longer, landlords say. "Guests stay here for over six hours," said Marc Strang, corporate marketing director at Pyramid Management Group, which owns and operates 15 malls in addition to Destiny USA.

They are also spending more money. Destiny USA sells day passes ranging from \$38 to \$48 for access to a number of its attractions which include laser tag, immersive adventures, glow-in-the-dark miniature golf and an outlet of the Build-a-Bear chain.

Food and entertainment currently account for 22.1% of the space leased in malls, compared with 19.2% in 2012, according to data from CoStar Group Inc. This year, Pyramid has 49 entertainment tenants which account for 9.6% of leasable area in its

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portfolio, up from 16 tenants and 4.3% of its portfolio in 2010.

"We're aggressively rolling the entertainment across all the other properties," said Mr. Strang.

Malls' reinvention as entertainment hubs is partly a response to the increasing competition online shopping poses to their traditional tenants, many of whom are scaling back. Macy's Inc. said in August it is planning to close 100 stores, or about 15% of its locations, amid sliding sales.

At the same time, investors are betting on the entertainment trend, with some of them showing decent profits. Consider, for example, EPR Properties, a real-estate investment trust based in Kansas City that focuses partly on building state-of-the-art movie theaters and golf entertainment complexes next to or inside shopping centers.

EPR reported revenue of \$236.8 million in the first half of 2016, compared with \$200.7 million in the same period of 2015. The company's shares, which this year hit a record high of about \$85, have risen 39.5% in 2016, compared with 11.7% for the broader equity REIT index.

"We're starting to see the recognition of this now. We do a lot of business with the mall guys," said Gregory Silvers, chief executive officer at EPR, which got its start in 1997 building theaters. "They say, we've got a lot of department stores, we need something that's going to be a traffic generator."

EPR's projects include a family entertainment center adjoining Oakbrook Center, a shopping mall in Chicago. It also has developed state-of-the-art movie theaters in malls across the country, including in Lycoming Mall in Pennsylvania and NorthEast Mall in Hurst, Texas.

EPR's movie theaters used to be standard multi-screen complexes. Now they are introducing luxury recliner seats and gourmet dining options and they offer their big screens for private gaming parties.

Another big EPR tenant is Topgolf Entertainment Group, a firm that operates driving ranges that allow players to hit golf balls containing microchips that track each shot for point-scoring. The ranges typically also offer drinking and dining as well as features such as live music.

EPR has built 20 of these ranges, half of them in large spaces next to shopping centers. They cost about \$18 million to \$24 million each to build, Mr. Silvers said.

Of course, amusement attractions aren't the panacea for the mall industry. Space vacated by a department store sometimes has to be demolished to make way for the new entrants because their designs don't work as entertainment space. It also remains to be seen if the new tenants will draw customers to shop in stores nearby.

But it is clear to many in the retail business that entertainment will play a critical role in the future of malls. "I'm not sure anything is ever a sure win but certainly being at the forefront of consumer trends, as the industry is, is essential to staying relevant," said Tom McGee, chief executive of the International Council of Shopping Centers, a trade group.

Some businesses are retooling old ideas. For example, EPR has worked with new bowling operators like Pinstripes, Punch Bowl Social and Main Event to develop new alleys in malls and other locations that feature more upmarket dining options and sometimes include other games such as bocce and minigolf.

New concepts include iFly, an indoor skydiving simulator. The Texas-based company SkyVenture LLC currently has 37 facilities around the world that charge about \$60 for

two flights for first-time customers, according to its website. Its locations include City Centre Mirdif, a mall in Dubai.

Bangkok, Thailand-based Escape Hunt Operations Ltd, one of the biggest operators of escape rooms, initially focused on attracting businesses that wanted to use the games as team-building events.

More recently the company has been trying to broaden its customer base, eyeing 25-to-40-year-olds and families with teenagers. Part of this strategy involves finding more locations at shopping centers.

“Traditionally, we did not consider [shopping centers] as rental costs were prohibitive, but recently we have tried harder to secure such spaces,” said Paul Bart, Escape Hunt Experience’s chief executive.

Escape Hunt has six locations in the U.S., including a mixed-use building in Houston and a Dallas strip center.

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