

Open mind  
Greater value



## CASE STUDY

Non-retail & mixed-use real estate:  
into the multiverse



# Case Study | Executive Summary

## NON-RETAIL & MIXED-USE REAL ESTATE: INTO THE MULTIVERSE

Shopping centre owners are urged to embrace the varied world of non-retail and mixed-use commercial real estate, as urban trends support the increasing dominance of dynamic destinations which fulfil multiple needs.

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### Challenge

While single-use assets still have a place in the commercial real estate landscape, they are increasingly challenged by competition from mixed-use destinations which arguably fulfil a broader range of needs for their customers and the catchment area.

New urbanisation dynamics, centred around the desire to live, work and play in urban areas and the resulting mobility challenges of highly dense conurbations, require shopping centres to transform their centrality in our cities.

Mixed-use projects in turn face their own challenges, demanding considerable expertise for the creation of an enticing balance of elements and in the management of private and public spaces, which often include complex urban infrastructure.

### Solution

Sonae Sierra has devised a successful methodology for developing mixed-use and non-retail properties, as well as for revitalising retail-led schemes, which fully exploits and meets the needs of today's evolving catchment areas.

Through strategic refurbishments, the addition of complementary elements, or the insightful planning of new schemes, key synergies can be created which make a mixed-use asset greater than the sum of its parts.

Using non-retail assets to boost the retail performance and market value of shopping centres is an opportunity to stay relevant while creating stable income flows and enhancing asset value.

Meanwhile, mixed-use projects drive varied and novel visitor traffic by offering complementary and diverse amenities ranging from hospitals and clinics to health clubs and dance schools; public administrative services to coworking spaces; while staying open to new and evolving use types.



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## NON-RETAIL & MIXED-USE REAL ESTATE: INTO THE MULTIVERSE

### Outcome

The diversification of portfolios through the creation of mixed-use schemes or from investing in a range of asset classes is a long-term value hedge for real estate owners, enabling them to meet economic cycles head-on, while exploiting key urbanisation trends.

### Highlights

- **Multiple-use assets are strengthened by their diverse elements**, creating a destination which is greater than the sum of its parts.
- **Understanding the evolution of urbanisation trends and consumers wants and needs in each catchment area is key** to achieving the right mix, whether in developing new assets or redesigning existing ones.
- **Retail is always strengthened by the addition of different services and use types**, adding long-term value to single-use assets.



# Abstract

Sonae Sierra has been committed to the development of mixed-use, retail-led assets for many years, encouraged by the performance of properties with a synergistic dimension. In recent times, we have been increasingly developing and managing non-retail commercial real estate schemes, whose growing relevance reflects key urbanisation trends and the evolving needs of communities everywhere.

Sonae Sierra research proves that shopping centres can benefit from the inclusion of non-retail uses nearby or as part of the asset. These mixed-uses also prompt visits driven by different motivations than regular shopping trips.

**Many owners are applying strategies to revitalise existing retail schemes, to preserve value or implement more radical solutions for assets which are not dominant shopping centres or strong neighbourhood schemes focused on convenience.** However, converting part of the retail space into offices, logistics or other non-retail uses will require considerable expertise to get the mix right, maintain income flows and enhance long-term value.

That means that considerable expertise is required when approaching these kinds of projects to get the mix right, maintain income flows and enhance long-term value.

Bringing in different uses is a trend that is playing out right across Europe, with shopping centres increasing their allocation of space to food & beverage outlets, as well as including non-retail uses such as co-working offices.

Furthermore, e-commerce trends and delivery pressures are demanding new types of downtown logistics spaces to fulfil 'last mile' consignments, creating another opportunity for diversification.

Beyond this, elements from student housing to hospitals, water parks to dance schools and academies, have the potential to transform footfall and create assets which are fit for the future.





# Introduction

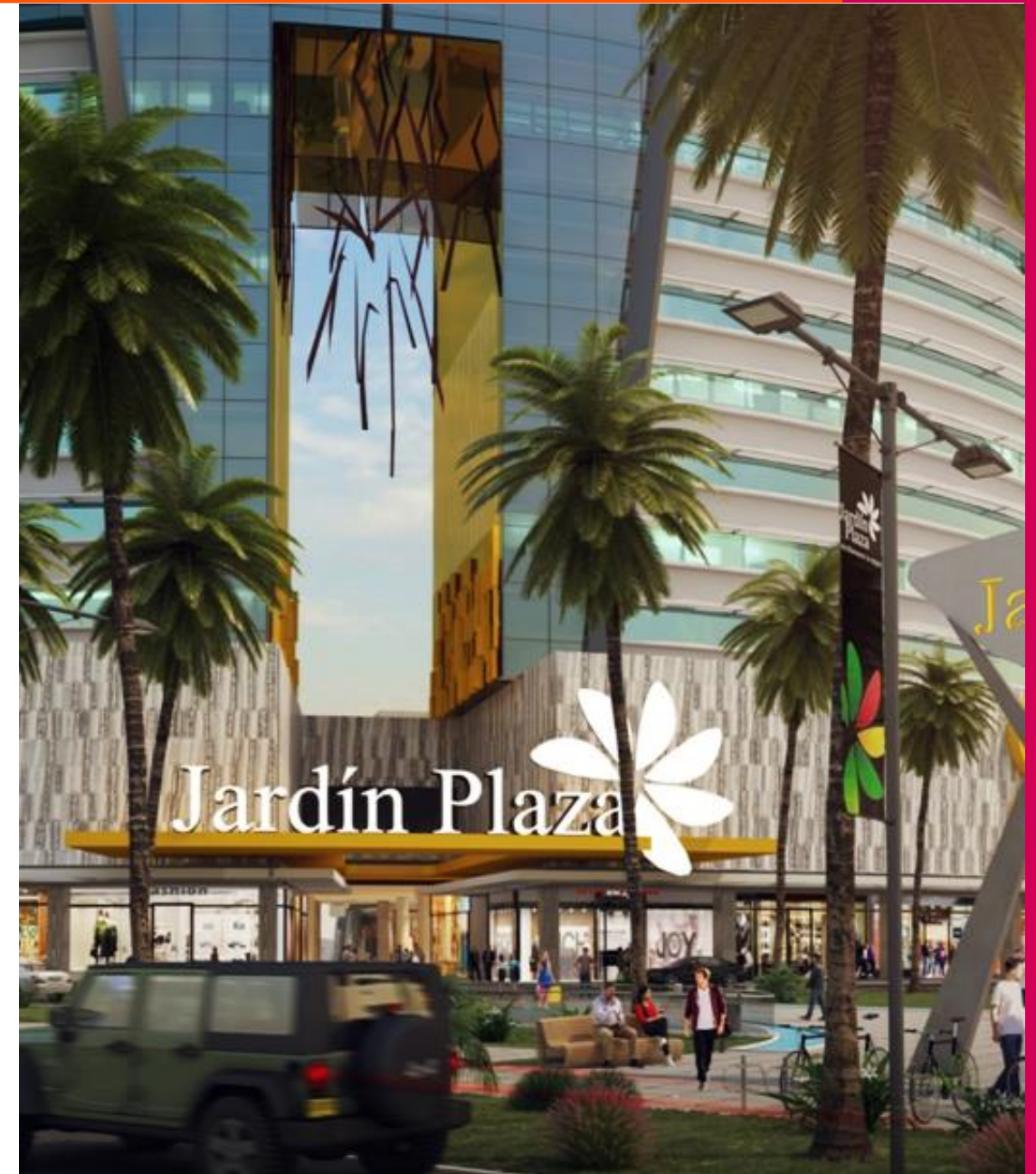
**Mixed-use assets are defined as schemes with three or more integrated streams of regular income, promoting synergies that integrate different property formats within the project. They are attractive for developers and investors alike, because they facilitate more stable income flows as opposed to dependency on a single type of property format.**

These projects increase and maximise land-use efficiency, especially in prime areas where land price is higher.

From a consumer point of view, these properties are appealing because they fulfil the search for convenience, instant gratification and broad experience by combining retailers, restaurants, entertainment, personal and professional services, offices and other uses, all at convenient distances from one another.

Shopping centres which are positioned to serve as community hubs attract visitors on the hunt to buy what they need or want while having a meal, secure required services, relax and even learn or work.

The inclusion of non-retail / service-based brands in shopping centres has gained momentum in recent years, with an increase of share of total GLA allocated to fitness, healthcare clinics, or leisure and entertainment activities. The presence of these tenants encourages a higher frequency of visits to a shopping centre.



# Background

Sonae Sierra has believed in the power of mixed-use assets from the earliest days of the company's history, creating retail-led destinations such as **Centro Colombo** (Portugal), one of the largest shopping centres in Europe, which is flanked by two of the most famous office towers in Lisbon.

More recent projects include the redevelopment of the **Rabat Agdal** train station in Morocco into a dynamic transport hub with relevant retail elements, or the realisation of the commercial heart of Milan's new work-live-play quarter, **CityLife**.

**Today, our expertise is also deployed across a range of non-retail assets, including student to senior housing**, such as our projects in Porto, Coimbra and Comporta, in Portugal. **We are also working on a stunning boutique eco-resort** dubbed Umay, incorporating a hotel, treehouses and private villas.

Sonae Sierra draws on its expertise across property lifecycles and multidisciplinary teams to really understand the changing wants and needs of urban dwellers today, plus the potential of a catchment area.

**The busy lives of digitally savvy end-users have created new desires connected to shopping, working and relaxing which often collapse multiple motivations and tasks into one single trip.**





# Background

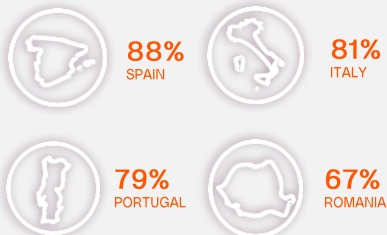
Five key trends are influencing these changes in demand. These are:



## URBANISATION

Urban populations are growing. Research<sup>1</sup> indicates that in Europe, the ratio of citizens living in urban areas will crease from 75% in 2020 to 84% in 2050.

### % OF URBAN POPULATION BY 2050



The growth of the urban population is piling pressure on the transport and mobility infrastructure of our major cities.



## MOBILITY

Current ideas around mobility are forcing a shift in the way people commute and consume in urban environments, and will create new mobility network systems.



## WORK FLEXIBILITY

Both pre and post-COVID, work mobility is a growing trend, which is seeing office users adapt and evolve where they work and creating a demand for new kinds of flexible spaces.



## CATCHMENT AREAS

The mobility trend is changing the paradigm of drive time catchment areas towards a new model, defined by a multi-layer ecosystem where mobility 2.0 moves the people. Location, location, location is more critical than ever.



## MIXED-USE EVOLUTIONS

Changes in consumer journeys resulting from new mobility trends and home working will demand access for new, third places. These urban mixed-use spaces must fulfil a range of wants and needs, while maintaining the ability to surprise and delight.

<sup>1</sup> Source: [World Urbanization Prospects 2018](#), United Nations Department of Economic and Social Affairs



## Challenge

While single-use assets have provided compelling investor and consumer dynamics for years, the commercial real estate landscape is changing.

The increasing development of mixed-use projects is having a significant competitive impact on single-use schemes such as office buildings, department stores and hotels, often requiring the latter to carry out renovations, extensions and refurbishments to attract occupiers or customers and retain competitiveness.

Backed by urbanization dynamics, centred around the desire to live in urban areas and the resulting mobility challenges of higher density cities, shopping centres are now called upon to transform their role in the urban fabric. They must transition from shopping and entertainment destinations into multi-purpose destinations, offering a long-tail of activities that have relevance and even centrality in the consumer journey in the future.

However, mixed-use assets are not without their challenges. Managers of these kinds of projects are required to create magnetic attractions to pull in traffic; manage a mix of private spaces and common areas; and coordinate infrastructure within the scheme.



# Solution

To compete successfully in the mixed-use or non-retail real estate market requires experience, insight, and access to the right multidisciplinary teams to execute a winning strategy.

Sonae Sierra boasts more than 30 years of experience in a range of asset classes, with a 360-degree understanding of real estate operations. Getting mixed-use right means achieving a balance between the synergy of the different property formats, while maximising land-use efficiency.

In particular, projects that include a retail element tend to have higher synergistic benefits because retail is compatible with multiple real estate segments.

Large destination centres and smaller neighbourhood centres are the preferred asset types for repurposing with other uses.

Shopping centres can also capitalise on their immediate surroundings, to improve their centrality and place in the urban fabric. This can mean providing or better:



ENTERTAINMENT AND  
SPORTS AREAS BOTH  
INDOORS AND OUTDOORS



# Solution

## Success stories

### NON-RETAIL & MIXED-USE REAL ESTATE: INTO THE MULTIVERSE

#### ITALY

##### CITYLIFE MILAN

This centre has created a new city heart in west Milan, integrating a shopping centre, offices, park, residential space and a metro station.



#### PORTUGAL

##### CENTRO VASCO DA GAMA

This centre and two high-rise residential towers can be found in Lisbon by the river. A mixed-use project with a retail offer of more than 50,000 m<sup>2</sup> and 44,000 m<sup>2</sup> of residential area, serves a large community and several offices.



#### PORTUGAL

##### CENTRO COMERCIAL COLOMBO

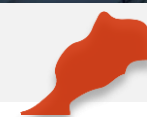
Opened its doors in 1997 and through the development of the two office towers (2009 and 2011), it was possible to create additional 50,000 m<sup>2</sup> office area. Receives more than 25 million visits every year and currently is being developed a third office building.



#### MOROCCO

##### ARRIBAT CENTER

Located in the urban center of Rabat, the multifunctional complex of Agdal, comprises the integration of an open air shopping center and four blocks of office buildings.

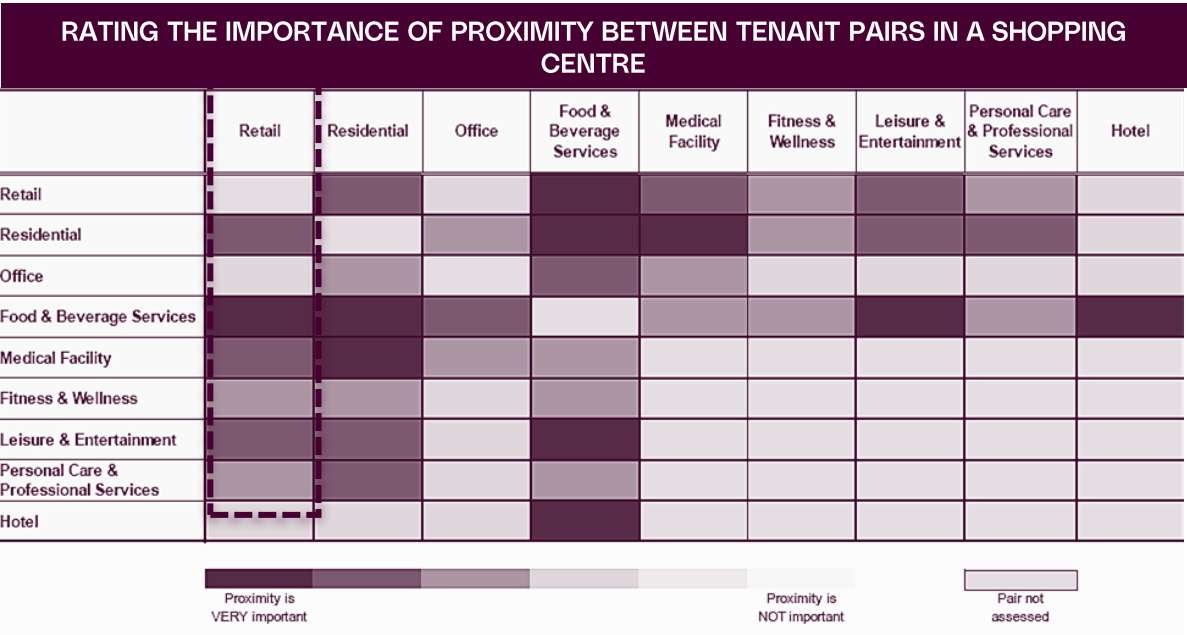
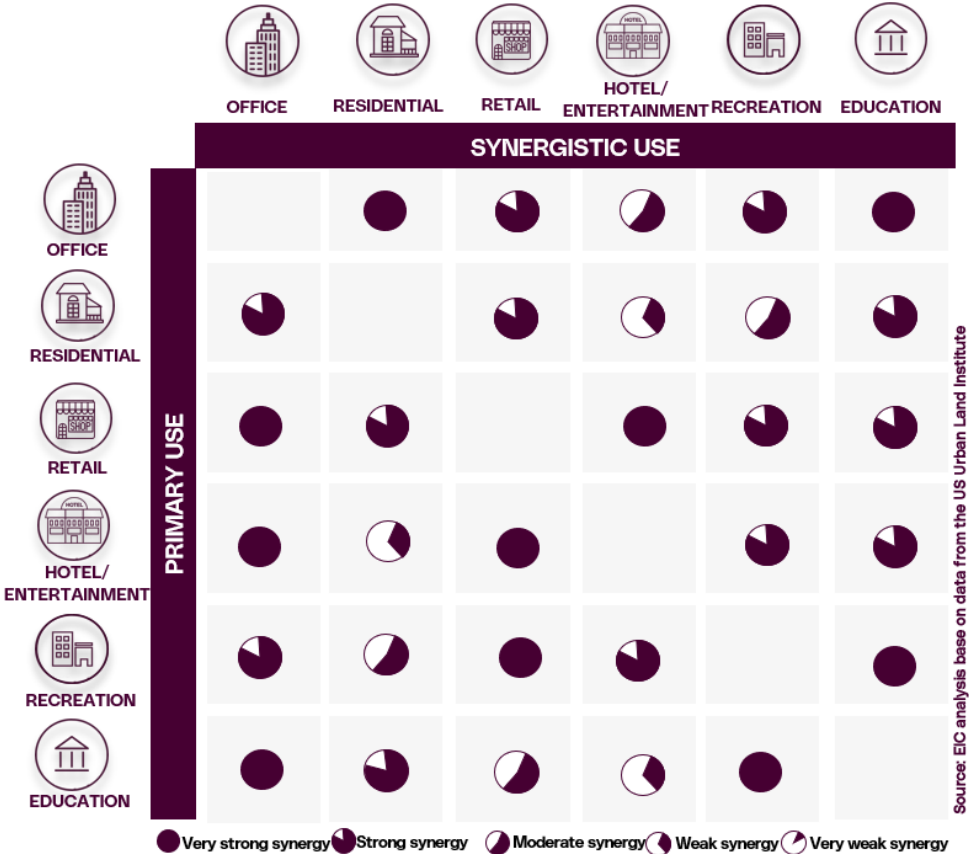




# Solution

Which combination of uses have the highest synergies?

Mixed-use synergies vary, depending on the project types, with retail benefitting in particular from a combination with offices and hotel or entertainment elements. Within a shopping centre project, the existence of non-retail uses tends to forge synergies with segments such as F&B, health, personal care, leisure and entertainment.



# Solution

## Sonae Sierra positioning in its catchment areas

Analysing a sample of 23 shopping centres, 13 in Portugal, 4 in Spain, 2 in Italy and 2 in Romania, the portfolio enjoys a strong dominance in their catchment areas. There are also several schemes that are well-positioned to challenge dominant centres nearby, through improvement of their tenant mix and integration within the urban environment.



OF VISITORS ARRIVE IN  
AVERAGE FROM WORK,  
SCHOOL OR OTHER  
LOCATION  
besides home



OF VISITORS ARRIVING  
BY OTHER MEANS OF  
TRANSPORTATION  
in opposition to private car



SHOPPING CENTRES  
WITH HIGHER % VISITS  
coming from work



SHOPPING CENTRES  
WITH HIGHER % VISITS  
coming from school



# Solution

## Choosing the right mix

Shopping centres can either be developed in line with a mixed-use strategy from the beginning, or adjust to the new trends by becoming more mixed and better integrated in their core catchment areas.



### HOSPITALS & CLINICS

Health services have become the new normal in contemporary shopping centres, with dentists, beauticians, spas, and even hospitals and clinics joining the tenant line up.

Backing this dynamic is the trend for health and wellness, driving both a greater attention to personal wellbeing and a larger spending allocation to services in this area.

**Sonae Sierra has opened hospitals in two shopping centres under management, registering a +10 pp increase in visits and a +5 pp increase in sales.**

In particular, the addition of a hospital at Nova Arcada in Portugal proved a stunning solution for an excessively large scheme which had lost relevance amongst brands and shoppers. Today, the centre receives more than 6 million visits each year and is a vibrant success story serving multiple uses.

Furthermore, we are also developing the stand-alone Bosa Hospital in Bogotá, Colombia, surrounded by extensive landscaped gardens to inspire a spirit of nature and wellness.



### HEALTH CLUBS

**Like hospitals, health clubs surf the wellness trend while driving loyalty and year-round sales volumes. Budget options in recent years have attracted a higher-than-ever basin of users.**

Within Sonae Sierra's portfolio, seven shopping centres have incorporated health clubs directly (from CoimbraShopping in Portugal, to Le Terrazze in Italy, and ParkLake in Romania), while others benefit from adjacent outlets, some with direct entrance to the mall (such as ArrábidaShopping and Centro Vasco da Gama in Portugal).

User insights indicate that proximity, price and quality are all relevant motives for choosing an establishment. Furthermore, most members go on to purchase in other stores when visiting the health club, with F&B, groceries and fashion amongst the favoured categories.



### PUBLIC SERVICES

**Public services have become traffic builders which create synergies with other stores.** By extending opening hours to include Saturdays in some jurisdictions, the mall provision of services represents a an extremely convenient addition to busy lives.

This is the case at ArrábidaShopping (Portugal), which offers diverse services for 17 public entities in its citizens' area. This service provision had a +3.9% impact on overall visitor traffic in its first three months of opening.

In ParkLake in Romania, a community passport office provides 17 counters for the public, representing one of only two passport resources in the region.

# Solution

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### RESIDENTIAL & OFFICE ELEMENTS

The traditional elements of mixed-use assets, residential and offices, have maintained their importance over the years. Both Centro Colombo and Centro Vasco da Gama in Portugal are good examples of how mixed-use assets have combined retail with offices and residential.

**Generating high levels of loyalty and visitor frequency, office and residential elements with high proximity to the shopping centre and direct access have a particularly strong effect.** At Centro Colombo, about a third of visitors come from its office towers, and nearly two thirds come to the centre on a weekly basis. Their prime incentives for visiting the centre include having a meal, hypermarket shopping and fashion browsing.

More recently, we designed and developed a retail and office scheme dubbed Marina in Casablanca, where a 2,000 m2 food hall and restaurant terrace overlooking the sea bring together all the property's end-users.



### DANCE SCHOOLS

Dance schools and academies are a more recent addition in Sonae Sierra centres, and have proved **effective at building traffic, generating high-loyalty, high-traffic visits.**

In contrast to the provision of gyms, dance schools are targeted at children, attracting families with kids. For example, in ParkLake, Romania, the Ana Dance School attracts around 500 children on annual subscriptions.



## Conclusion

Sonae Sierra's expertise in **the science of mixology ensures that commercial real estate assets can maintain and enhance their relevance in urban conurbations both today and in the future.** Whether by adding non-retail elements to a shopping centre, or amplifying a project with adjacent strategic projects, understanding the characteristics of catchment areas is key to ensuring that commercial assets achieve their full potential.

Our approach is backed by our experience, insight and competence in managing diverse properties, all of which equip Sonae Sierra to bring out the best in real estate assets and help maintain their value in the long term.

Our know-how shows that there are plenty of positive synergies that can be achieved from the integration of mixed-use projects and non-retail uses in a property. Projects which also include retail on the whole have higher synergistic benefits, because this asset class is compatible with many other formats and segments.

Urbanisation trends mean that shopping centres today are shifting to becoming community hubs, where visitors can do everything in the same place. Both large destination centres and smaller neighbourhood centres are ideal for repurposing with other uses.

Overall, mixed-use projects provide more stable income flows and maximise land-use efficiency.



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