

THE LEASING PLANNING OF A COMMERCIAL CENTER

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Abstract:

The main function through which a commercial center rents spaces is called leasing. Being an activity of major importance, a rigorous planning is necessary. Our paper is structured in 3 parts. The first one covers topics such as tenants' structure, physical characteristics of the commercial center, market and competition study, renting record. The second part introduces the methods of tenants prospecting and the last one describes the final step of the renting process, i.e. transaction completion.

Key words: Strategy, Leasing, Shopping Center

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Leasing is the process of renting the spaces of a commercial center to a profile mix which will be capable of sustaining the businesses and paying the due rent (**** - *Shopping Center Marketing*, ICSC-International Council of Shopping Centers, New York, 2001). Thus, leasing represents a legal-commercial function of the commercial centers management.

Leasing is one of the most important aspects for the general success of any commercial center. The way the space is rented, the configuration type of every shop and the concluded transactions with every retail dealer to bring him within the center and for creating a financial arrangement which is convenient both for the tenants and the landlord, drives the success or the lack of success for the property (**** - *Leasing Opportunities*, ICSC-International Council of Shopping Centers, New York, 1992).

The factors which will be outlined below resume the motives that makes the leasing so important (**** - *Essential Factors in Shopping Center Leasing*, ICSC-International Council of Shopping Centers, New York, 1992):

- **Without renting a commercial center produces no outcome.** If the tenants don't commit to pay for the available space, no income will be obtained;
- **The amount of rents determine the value of the center assets.** For example, if we consider a 100.000 m² center which has 40.000 m² brut renting surface (GLA) and obtains 1 euro/m², this means he acquires 40.000 euro as center income;
- **Not rented space means vacant places which result in "headaches" for management and marketing personnel.** Not only that the respective space is non-productive, but it affects the productivity of all the remaining tenants. Less shops mean less buyers which mean less sales and, consequently, lower profits for everyone involved.
- **A successful leasing goes well continuously for the whole center.** It anticipates the changes which take place in the market and forecasts the vacancies before they occur.

If the management performs a high quality leasing it can predict many situations, including (**** - *Shopping Center Lease Administration*, International Council of Shopping Centers, New York, 1991):

- some shops need more space
- some shops need less space
- some shops generate losses
- some shops must be allowed to leave
- the shops which must be attracted will be identified before the competitors

Among the necessary and useful tools for a quality leasing we emphasize **the leasing activity monthly report and the 6 months leasing strategy report.**

1. The research as leasing support

A leasing program requires a carefully designed planning and a very good organization. A meticulous study of all the center aspects along with the assembly of all the available tools will help accomplish a prosperous leasing easier (**** - CMD Strategies, ICSC-International Council of Shopping Centers, New York, 1992).

Leasing is the process of occupying the commercial center by bringing in the best and the most powerful dealers. For fulfilling that, one must understand the notions of center type and existing tenants. Thus, information acquired through own conducted analysis will indicate (**** - *Shopping Center Tenant Manual*, ICSC-International Council of Shopping Centers, New York, 1991):

- the free places for retail trade
- the best dealer for the above mentioned spaces
- the most suitable dealers for complementing the existing ones

a) Tenants structure study

It is necessary to analyze very carefully the tenants structure to see if the center benefits of a adequate shop combination. The primary aspects on which we must focus are (**** - *1991 Maxi Awards*, ICSC-International Council of Shopping Centers, New York, 1991):

- the tracing of the retail trade categories and of the sold goods to see if their type is fit to the center market
- assessing if the proposed tenants have high quality merchandise at high prices; medium quality, bought off the market or brought directly from the producer at lower prices than the standard ones from the retail trade
- concluding if the tenants structure functions as well as possible or to match the desired goals

For example, the commercial center could be too interested in alimentary goods and less in women clothes. The goods amalgam could be too rich or insufficient seasoned for the client base. The center could aim a market which is too old or too new.

b) Physical characteristics study of the commercial center

To establish what a commercial center really means, it must be understood like a physical unit. One must know its configuration and the available spaces for renting. Also, we must take into consideration all the physical aspects of the center and the way they influence the leasing strategies. For example, we should analyze characteristics such as (**** - *The Best of the Retail Challenge*, ICSC International Council of Shopping Centers, New York, 1991):

- the legal status of the property (buildings and terrains) and its total surface
- the percentage of the brut renting surface (GLA)
- access to parking spaces and their number
- identification of the parking places/levels relatively to the rest of the center and its entering points
- the parcels (the terrain portions which don't belong to the center or to the parking lot) which are available for renting and their value
- the urbanism plan of the area
- restrictions and legal incidents of the area
- center nearby area and its destination
- center location, the county or locality, information regarding local government which can exercise their jurisdiction over the center
- the unusual characteristics of the center which could facilitate or aggravate the leasing

- the general plan and the topographic aspects of the center
- marking the resistance walls
- the status of the heating, ventilating and air conditioning system (HVAC)
- height coordinates of the ceilings
- the relative proximity of the space to the delivery points
- the localization of the spots for the hawkers
- the water and canalization pipes positioning
- the geometry of the vacant spaces

c) Market study

The most important domain of market research is market study because in the organization environment structure the market occupies the central place (Negruț C., Dobre C., Venczel M. – *Marketing*, Amphora, 1995).

We have the belief that a well done market study will bring a multitude of information which can illustrate major changes regarding the property, since it was built or since the last study. These changes can refer both the physical aspects of the center placement and the market demographical differences.

The market of a center modifies in time and these changes must be noted so that a leasing program is successful. *For example, a center built 200 years ago may have been surrounded by a neighborhood of houses inhabited by young couples with children. In 3 years, the market may have suffered transformations. Consequently, the shops types which reside in the center should be changed.*

We consider important (**** - *Market Research for Shopping Centers*, International Council of Shopping Centers, New York, 1991):

- open-mindedness to the transformations that take place in the area and in the market
- fulfilling market studies periodically (at least one per year)
- using market studies for intrinsic analysis of retail good dealers types which the center needs

The consumers (the buyers) establish who the best retail dealers are (**** - *Marketing Small Shopping Centers*, International Council of Shopping Centers, New York, 1992).

We stress that the choice must not depend on the existence of a certain dealer which can afford to pay for a space, even if he has a strong financial position. He must be a “suitable” one, recommended by the market study and whose selection is based on the idea of an adequate structure for the commercial center.

d) Competition study

After he collected the necessary information for the identification of the attractiveness degree of the markets, by specific marketing means, the organization performs the competition environment study of each market, of its goods and the assessing of the origin and importance of the competitive advantage (Dobre C., Negruț C. – *Marketing. Politici, Strategii, Tactici*, InterGraf, 1997).

To correctly establish the strategies which address the competition in a direct manner, one must first of all properly understand the sense of the competition idea. The following aspects must be taken into consideration (**** - *Antitrust Aspects of Restrictive Covenants in Shopping Center Leases*, International Council of Shopping Centers, New York, 1992):

- the nearest competition;
- the competition niche;
- in which way the competition offer varies from that of the considered commercial center;
- the market segments where the battle with the competition is frontal.

e) The renting record

Keeping a strict and up to date record of the renting files is an essential element for the efficient leasing activities. These records can include (**** - *Market Research for Shopping Centers*, International Council of Shopping Centers, New York, 1991):

- **the leasing folders/files:** the list of tenants needs and information regarding their actions within the center;
- **the summaries or the abstract elements regarding all the current renting activities;** combining the information about the expiration date of each contract with that concerning the business performance of each contract, the center management can schedule earlier the cancelation or the renewal of each renting.

For anticipating the vacant spaces, the expiring contracts must be kept in sight as much as 2 years earlier (**** - *Shopping Center Legal Update*, International Council of Shopping Centers, New York, 1989).

We consider that in as far as discussions with the tenants cover the aspects about their sales, a correct decision can be made concerning those who are about to exit the business, who needs more or less space and when the new categories of tenants must be brought in the center.

The leasing strategy characterizes and expresses better in the leasing plans which are made for different periods of time (seasons, years, 2-3 or more years). These plans must be thoroughly conceived and realistically designed such as to practically eliminate the major risks, face the competition and assure a lucrative commercial activity.

f) Creativity as leasing support

The creative thinking vis-à-vis the alternative destinations of the non-ordinary spaces in the center can help it “make money” from spaces which customary tenants would not rent. The destinations of these spaces could cover (**** - *Temporary Tenants*, ICSC International Council of Shopping Centers, New York, 1992):

- chemical cleansers and laundries
- medical offices (dental, ophthalmologic, cardiology)
- cosmetics or computing skills classes
- game spaces (usually in the basement) and other activities of the kind

We want to emphasize that these tenants who don't have retail sales activities are more flexible regarding the spaces they rent because they don't depend very much on the buyers flow or on a high visibility to attract clients.

2. Tenants prospect

Tenants prospect must follow an analysis of the commercial center and its needs. The managers, leasing agents and marketing directors must keep detailed record files/folders regarding all potential key subjects for leasing. These are regarded when the center plans or fills in the vacant places from renting expiring or space reacquiring (**** - *The ICSC Directory of Products & Services*, ICSC International Council of Shopping Centers, New York, 1992).

The prospect and the techniques for convincing potential clients make an important responsibility of the manager in pursuit of the best solutions for occupying the vacant spaces. Thus, a variety of actions can be taken.

For example, in case the center wants a tenant with audio disks, it can identify:

- *what kind of music shops are on the market;*
- *where are they positioned;*
- *who are the owners;*
- *whether they have extension plans.*

The following simple criteria will help build credibility at the time of the prospect (**** - *ICSC Guide to Operating Shopping Centers-the Smart Way*, ICSC-International Council of Shopping Centers, New York, 1992):

- the desired shops owners must be known
- a list with the shops of the potential tenants must be made to include a range from “the best” to “the worst”
- it is important to find out as many things as possible about the business of every possible tenant
- references must be found from dealers concerning their competitors; when the competition is known, the subjects (the potential tenants) will respect the knowledge of the manager regarding their business area
- questions must be asked about the businesses of the possible tenants to build a certain familiarity upon the things with which they confront (what goes well and what goes wrong)

In the process of identifying the possible dealers within the center, a distinction must be made between high quality shops and low quality ones. To facilitate the unambiguous and correct identification of the one who'll get the place, respectively of that who'll lose, the following must be observed (**** - *1990 Maxi Awards*, ICSC-International Council of Shopping Centers, New York, 1990):

- goods arrangement and shop outlook
- inventory levels
- traffic
- staff training
- advertising

On the other hand, knowing the reputation signs of the potential tenants is of great importance. We must conclude who the best dealers from each category are, what makes them the best ones, if they are local dealers or from other areas. Also, we must assess which of these classifications best fits the commercial center to satisfy its retail trade needs.

The commercial centers are o amalgam of commercial retail offers. National tenants bring with them the brand name and a secure level of business but it's possible that they don't have the local dealers exclusivity regarding the quality (**** - *Scope of the Shopping Center Industry in the U.S.*, ICSC-International Council of Shopping Centers, New York, 1996).

After assessing the retail trade profile mix type, the empty spaces can be filled in. The futures tenants must cover (**** - *Research Bulletin*, International Council of Shopping Centers, New York, 1992):

- a sufficient number of national tenants to offer the center the reputation it needs to prosper
- a sufficient number of regional tenants to give the center savor and solidity
- a sufficient number of local tenants to ensure certain exclusivity relations

We consider that in any given situation, area, period etc. one must work taking into consideration its own priority list with the potential dealers. From here the choice must begin, based on the criteria and elements above mentioned. The longest the waiting list the easier the selection is.

3. Transaction concluding

When a transaction is sealed with a future tenant concerning a certain space intended for retail trade, the person which closes the deal must satisfy two parts: the tenant and the center owner. It's possible that the respective tenant is willing to pay a price and the owner to wish another one.

The art to seal a space leasing transaction shows only at the phase in which both the tenant and the owner are satisfied with what they give and what they receive.

When negotiations with a possible tenant begin, the renting structure must be delimited in view to correctly dimension all the elements which will finally have to (**** - *Increasing Retailer Productivity*, ICSC-International Council of Shopping Centers, New York, 1992.):

- make the tenants profitable
- maximize the owner income
- not affect the existing tenants
- stimulate the supplemental leasing activity

We consider that in order to stimulate the possible tenants to obtain a space, they can be supported during the transactions, stressing what they desire and orienting the transaction on that part, as long as it doesn't affect the income goals of the owner. Thus, it is important to evaluate the envisaged business volume, then structure the deal around this value so that both parts have the sentiment they concluded a gainful deal.

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