Chicago Association of Realtors

Anatomy of a Shopping Center

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Anatomy of a Shopping Center

Classroom Course Outline

3 Hours - Elective

Overview	10 Minutes
Section 1 - Types of Shopping Centers	35 Minutes
Section 2 - The Shopping Center Development Process	35 Minutes
Section 3 - Key Elements in Site Selection	35 Minutes
Section 4 - Building Design	15 Minutes
Section 5 - Marketing Considerations	35 Minutes
Section 6 - Merchant's Association	15 Minutes

25 Question Final Examination

Anatomy of a Shopping Center

Course Description

This course provides the student with a working knowledge of the shopping center development process.

Topics covered include:

- History of the Shopping Center Concept
- Types of Shopping Centers
- Shopping Center Classifications
- Shopping Center Development Process
- Shopping Center Site Selection
- Shopping Center Design
- Marketing Considerations
- Lease Terms
- Shopping Center Merchant's Association

Anatomy of a Shopping Center

Learning Objectives

After completion of this course, the student will be able to:

1. Identify and describe the five types of shopping centers.
2. Identify and describe the five types of shopping center pattern classifications.
3. Identify and describe the six steps in the shopping center development process.
4. Identify the 10 key elements in the shopping center site selection process.
5. Describe the differences between the four types of shopping center building designs.
6. Identify the two key tenant mix aspects of a shopping center.
7. Identify and describe the different types of advertising and promotional campaigns in the leasing of a shopping center.
8. Identify the 20 key clauses generally found in a shopping center lease.
9. Identify and describe the insurance requirements for both tenant and shopping center.
10. Describe the function and benefit of a merchant's association.

Overview

Retail space is the second major classification of commercial property. The current market opportunities are linked to the history of shopping center development. Most of our current shopping centers have been built since the 1950's. After the end of World War II, when the servicemen came home from military posts around the world and U.S. industry converted back to domestic production from military production, we entered a period of housing construction. Mobile Americans began to move farther from the central business district and to rely less on public transportation.

Neighborhood and community center construction proliferated after the war years and more ambitious projects were planned. Regional centers were the vogue during the 1960's and early 1970's as the developers acquired sites in the midst of growing, affluent residential areas. The regional centers developed into super regional centers when very large suburban, affluent communities were permanently developed in major metropolitan areas. During the 1970's, a movement began in the direction of redevelopment with private capital of downtown shopping centers. In light of this major development activity of the last 30 years, new markets for shopping center development continue to appear.

Section 1
Types of Shopping Centers

The shopping center is a planned and integrated retail center usually created by a real estate developer and financed by mortgages and equity contributions from long-term investors. They can be classified by ***market area***, ***pattern***, ***ownership*** and ***merchandising***; however, these classifications are not mutually exclusive in that one can find variety of combinations. Some ***classifications*** are:

Market area, with sub-classifications:

- <u>Commercial Strip Centers</u>
- <u>Neighborhood Centers</u>
- <u>Community Centers</u>
- <u>Regional Centers</u>
- <u>Super Regional Centers</u>

Pattern, with sub-classifications:

- <u>L-Shaped Centers</u>
- <u>U-Shaped Centers</u>
- <u>Cluster-Design Centers</u>
- <u>T-Design or Triangle Centers</u>
- <u>Dumbbell or Double Dumbbell Centers</u>

Ownership, with the following types of ownership:

- <u>An individual</u>
- <u>A partnership or joint venture</u>
- <u>A Limited Partnership</u>
- <u>A Corporation</u>
- <u>A Limited Liability Company (LLC)</u>
- <u>A Real Estate Investment Trust (REIT)</u>
- <u>A Trust</u>
- <u>A Land Lease</u>

Merchandising, with the following sub-classifications:

- Fashion/Specialty Centers
- Outlet/Off-Price Centers
- Power Centers (Retail Parks)
- Mixed Use Developments
- Theme/Festival Centers
- Lifestyle Centers

Market Area Classifications

Categorization by market area is relatively simple because the size of the market area served by a shopping center is reflected in the center's size.

Shopping center developers often split the market into primary, secondary or middle, and tertiary or other types of markets. Opportunities for development are present in all three of these markets. The primary market is associated with downtown, inner city, and suburban shopping center markets of our largest metropolitan areas. The middle market or secondary market is associated with less densely populated urban areas. The tertiary or other type of market is associated with small markets of smaller urban areas, perhaps in essentially rural areas, or local urban settings of neighborhood market dimensions.

A market analysis of the surrounding area will disclose the composition of the population within the trading radius, the median family income, the traffic patterns for the area and the competition. Types of Shopping Centers are the One - Stop Shopping, Neighborhood Centers, Community Centers, Regional and Super regional Centers.

• Commercial Strip Centers

The Commercial Strip Center is appealing to all segments of the population. Commercial Strip Center may apply to convenience goods and services offered by a neighborhood shopping center or to the full line of convenience, shopping and specialty goods and services offered by a central business district. The customer may take care of more shopping needs in one trip than would be possible if the retail goods and services were offered at many diverse locations within an urban area. They are usually about 10,000 - 30,000 square feet with 4 - 10 retail spaces.

- **Neighborhood Center**

When a person wants something for his or her personal use, an item which is frequently purchased by brand name or not, that person will probably go to the closest source. The closest shopping center offering that item or service, such as bread, milk, etc., will probably be classified as a neighborhood center. Persons living close by may walk or drive to the center. The regular customers will live or work within five minutes' driving time or less. The few stores - perhaps six to eight storerooms in total - occupying the center will be anchored by a super market and drugstore. Some may be as large as 100,000 square feet with 15 - 20 stores on three acres of land and may attract customers within a 1.5 mile radius.

Only a few acres of land may be consumed by the center store buildings, customer parking spaces, employee parking spaces, truck loading docks, and rear access driveways. This type of small urban complex may be located anywhere in an urban area, downtown, near high - rise apartment and office buildings, in central city areas adjacent to heavily populated residential districts, and in suburban areas near residential and office areas. The small center can fit into corner locations and along main arteries where local residents and workers can move in and out of the complex quickly and easily. City planners often zone commercial land adjacent to residential areas for such small retail centers. The appropriately zoned land may act as a cutter to separate residential areas from heavily traveled thorough fares, major office developments and industrial areas. The land is an area of transition between quiet residential, noisy and polluted industrial areas. Generally, this shopping center needs only about 1,000 families to support its activities.

- **Community Center**

A community shopping center is a retail complex anchored by a supermarket and a discount junior department store or regular variety store and is surrounded by several other smaller tenants. It usually occupies about 10 acres and includes from 20 to 70 stores. It draws customers from a five-mile radius, 10 - 15 minute driving time and depends on a minimum of 5,000 families for its support. The community center is normally from 150,000 to 300,000 square feet.

Since this type of center consumes more land than a neighborhood center and appeals to a wider customer radius, there are fewer community centers than neighborhood centers. There are similarities with regard to location as the developer may locate the center in the central business district near large residential complexes or in any central city area near major residential populations or in the suburbs where the center is surrounded by residential buildings of all kinds: single - family, two - family, garden and high - rise apartment buildings.

Corner locations are sought for their customer driving convenience and for the advertising value of visibility from two or more main thoroughfares. Fast - food and movie chains may desire auxiliary space adjacent to the community center since the customer traffic in and out of the center is sizable.

- **Regional Center**

Depending on its size, the regional shopping center houses as many as six major department stores, accompanied by food stores, satellite stores offering a range of general merchandise, restaurants and banks. It varies from 70 to 225 stores, serves a radius of 5 to 15 miles and is supported by 50,000 to 150,000 families. Its size ranges from 300,000 to 800,000 square feet.

- **Super Regional Center**

The largest type is called a super regional shopping center. It may house 1.5 million square feet or more of shops and appurtenant areas and is usually built with a weather - controlled covered mall and is located in the central business district or in a newer outlying suburban area at the intersection of at least two major highways. The super regional center may be developed in phases as the major department stores gradually build and occupy their premises. It may be a single or multi-level center with integrated parking buildings and uncovered ground-level parking lots.

Pattern Classifications

Several basic design patterns have emerged during the evolution of the shopping center. Basic design patterns include the following:

- **L - Shaped Center** - The L - shaped center is a spin-off from the straight strip center and the anchor tenants are usually located at each end of the L.

- **U - Shaped Center** - is another spin-off from the straight strip center and is formed by a line of stores at right angles to each end of the strip. Because they are larger, U - shaped centers often serve entire communities and can have as many as three key tenants - one at each end of the U, with the major anchor store in the middle of the strip.

- **Cluster - Design** - form a rectangle bounded by parking facilities on all four sides. The anchor store usually occupies one side of the rectangle and extends from the periphery to the center of the cluster. Cluster - design centers may be open or enclosed and may serve a local community or a region, depending on Size.

- **T - Design or Triangle** - centers can accommodate three anchor stores. Both patterns provide for parking on all sides and can be either open or enclosed areas. They may serve a community or an entire region.

- **Dumbbell or Double Dumbbell** - patterns are utilized in regional shopping centers. Basically this pattern consists of two strips of stores that face each other along a mall, with an anchor tenant at each end and parking on all four sides. The double - dumbbell center accommodates four key tenants. One dumbbell runs longitudinally and the other latitudinally. The malls for each dumbbell segment meet to form a central court. Dumbbell centers can be either single - level or multi - level, open or enclosed.

Owner Classification

A shopping center can be owned by a single individual, by a group of persons forming a partnership or by a corporation. The land may be owned by one entity and the stores by another entity.

See the ownership classifications on page 6. We will not go into details about these classifications.

Merchandising Classifications

Several special types of shopping centers have developed as a result of a specific merchandising approach.

• **Fashion/Specialty Center** - concentrates on specialty goods and services rather than on convenience and shopping goods and services. The ultimate consumer will drive considerable distances to acquire the goods and services that are offered by the specialty center merchants. Often, these goods consist of higher-end merchandise.

• **Outlet/Off - Price Center** - The off - price center, now commonly known as an outlet, is a variation of the discount concept and has enjoyed ready acceptance. Factory outlet or discount malls have enjoyed recent popularity and are usually found off major freeways outside small to medium size cities. The tenants usually are national and international firms selling discounted, "seconds" or irregular merchandise.

Historically, the first of these to develop was the discount department store, which utilizes several merchandising techniques. Initially, many discount houses were factory outlets for surplus or bankrupt stocks of merchandise. Others include the closed - door discount house that is open only to clientele who qualify on the basis of employment, such as government employees; or status, such as union membership.

• **Power Centers** - Coming into popular use in merchandising as a particular type of specialty shopping center, power centers share certain identifying characteristics. They generally are large centers, from 300,000 square feet to over 1 million square feet and the stores in the centers are mostly large national chain outlets that would be considered anchors in a conventional shopping center. The few small stores are mostly national credit types. Each merchant in a power center is dominant in its specialty. The term used to describe such merchants is category killers, because it is feasible for only one of each merchandise classification to be in each complex.

Power centers advertise heavily as individual businesses, employing mass marketing and mass merchandising for their entire stock of goods, as opposed to featuring only certain items as loss leaders. Power centers are not mall developments but are designed so that the customer may park near the destination store. There is a parking area in front of the main entrance of each anchor, which will have a high parking ratio - perhaps as high as six spaces per 1,000 square feet of GLA (Gross Leasable Area). Power centers are popular with developers because the national credit status of the majority of tenants significantly enhances financing.

- **Mixed - Use Developments (MXD)** - MXD is the term used to describe a combination of uses of a single property and grew out of planned unit developments. Generally, it is a combination of retail, office and residential areas. The purpose of an MXD is to enable those who work in the development to live, eat, shop, conduct financial transactions and sometimes enjoy health and fitness facilities nearby, precluding the necessity for a car.

  Most MXD's rule out domination of one type of use, unless the MXD primarily is designed as a shopping center or around a large office building development, in which case one or the other will be the major feature. As an example of the adaptability of this concept, developers have begun to incorporate hotels into their mixed - use projects with a great deal of success.

- **Theme/Festival Centers** – is a tourist – oriented center and park. Examples include Epcot Center at Disney World, which contains theme oriented shopping based upon countries of the world. An example of a theme park is The Bristol Renaissance Faire, which has many theme shops based on recreating the visit of Queen Elizabeth I to the port city of Bristol in the year 1574.

  The centers have a unifying architectural theme, which is, to an extent, reflected in their merchandising. They may be anchored by restaurants and entertainment facilities. Many utilize rehabilitated historic buildings located in historic districts, as seen in Galena, IL and St. Augustine, FL.

- **Lifestyle Centers** - contain leisure amenities oriented towards upscale consumers. They are also known as "boutique malls" containing exclusive shops and are often located in affluent suburban areas. They are usually open air centers, with a downtown look that includes streets and parking. They offer both major shopping and places to browse and get a cup of coffee.

Section 2

The Shopping Center Development Process

There is a process that the developer follows in creating the finished shopping center. The process starts with such questions as whether the project should involve only a shopping center or a mixed - use development with a shopping center as one of the elements. The developer goes on to determine the general characteristics needed for a site. Then a site must be selected. The end point of the process may be the grand opening of the center with all tenants in place, or it may be the sale of the center upon its completion or after years of operation.

As a prerequisite to developing a shopping center, the developer must always obtain a feasibility and market study as discussed in the Chicago Association of Realtors'® publication, *Anatomy of an Office Building.* Municipal governments often have existing master plans for development of areas within their jurisdiction. It is usually best to comply with such plans rather than having to seek a variance for a development that doesn't meet the plan's standards. The study reveals the following characteristics of the development.

• **Site Characteristics** - The site for a center must exhibit certain characteristics. The location must be appropriate for retail sales. The developer knows that certain utilities must be available at the site. There must be access to the site in terms of usual mode of customer transportation. There must be sufficient buying power in the possession of prospective customers. These prospective customers must be able to view the center buildings and signs for eventual advertising purposes. The site must be large enough for the planned development. The soil must have absorptive qualities to meet percolation tests for the prospective septic tank system. Otherwise, city sewerage lines must be brought into the site for building hookup. The soil must partially absorb water runoff from the parking lots and other improved land; storm sewers may absorb the remaining heavy water flows. The site must be drained properly. The surface soils must exhibit load - bearing qualities. The weight of the land improvements, particularly multi - level malls and department store buildings, must be supported by foundations that are appropriate for the soil and subsurface conditions.

• **Location** - It is said that the three principal determinants of the good center are "location, location and location." All other considerations are of considerably lesser importance. Therefore, the developer must struggle against the competition to gain control of the well - located shopping center site. Very few sites are usually available at the right locations for a shopping center, particularly a regional or super regional center. Super regional centers in suburban areas usually require a major tract at the intersecting of two interstate highways or freeways in major metropolitan areas. Accessibility and easily line of sight for the many potential customers are required for the major marketing center. The same thing is true for regional centers. Accessibility and visual approach to the center are also required for community and neighborhood centers, but the required customer clientele for smaller center profitability is far less than for the major centers.

The improved or unimproved land must be located in the heart of expanding population and buying power. The investor's yield requirements over time require increasing customer sales from the day of center opening. Most investor yield requirements may be reached only if the center sales increase the center's property value over time. Therefore, the area around a new shopping center site may be established and densely populated, but the developer will receive adequate financing if that area's buying power and relevant population is increasing. Such growth requirements may be more easily obtained from new suburban sites where real estate growth is exemplified.

Since the right location is the key factor, the developer may find this location in a number of places in the urban area. The key location may be (1) downtown in the central business district, (2) in other commercial centers in the inner city outside the central business district, and (3) in suburban areas. After considering this land competition, the developer may see only one site that is appropriate for the proposed center. Sites that are available but less appropriate may be observed at the same time in the same urban market area.

• **Utilities -** The site for the center must be served by natural gas and electric lines. A source of water under the right pressure must be provided at the site. Existing sanitary and storm sewer lines must be extended into the site for hook up to the building plumbing and drainage systems. Phone service may be provided by the same cluster of cables as the electric service. These lines are usually buried under ground as much as possible.

• **Accessibility -** Prospective customers must be able to get to the center with minimal delay and driving frustration. Access to the center must be easy and unobstructed. The right of ways must be wide enough; enough driving lanes must be provided; freeway ramps must be long enough to accommodate normal traffic conditions.   New developments and substantial rehabs must comply with the Americans With Disabilities Act (ADA).

Most planners actually anticipate peak hour traffic volume during the heaviest retail buying season; if the shopping center is the only land use being considered. In like manner, parking lot design and total space usually revolve around near peak parking conditions. Traffic planners usually avoid stoplights and give preference to ramps where traffic may flow continuously from freeways into the area of the center.

The path of the center should not cut through existing heavy traffic. Another access method should be devised to circumvent the patterns of heavy traffic that already exist. Bridges over existing thoroughfares are sometimes devised to handle the regional shopping center that comes primarily from interstate systems or freeways. Stoplights may have to be used to permit cross traffic movement. When stoplights are employed, the ramps for the waiting vehicles must have sufficient lanes and be long enough to accommodate the waiting vehicles without obstructing normal traffic flow on the original transportation artery, such as the freeway or main street.

• **Signage** - Large, easily read signs should aid the traffic flow into the center toward convenient parking spaces in ground level parking building lots. The city or county government may provide for the desired traffic systems and signs.

• **Agency Regulation** - Any developer who engages in a real estate project of regional or wider dimensions, who acquires funds from federally regulated financial institutions, or who receives any federal subsidies or monies is regulated by the federal environmental protection agencies. The state agencies regulate the development of larger real estate projects within the individual state boundaries.

These agencies review and approve real estate project plans. They issue construction and operating permits and licenses. They generally enforce state regulations passed by state legislatures which apply to the particular real estate project. Shopping center developers have been scrutinized closely for excessive indirect sources of pollution. The developer's shopping center tends to attract heavy customer vehicular traffic. If the center is successful, this will result. The exhaust fumes from customer vehicles traveling to the single site of consolidated retail units in the form of a shopping center may cause concentrated air pollution. Water drainage problems may develop if not anticipated by the developer. The water runs off the parking lot expanse, which does not have absorptive qualities, into adjacent residential and commercial areas. The center may overload the original neighborhood water treatment facilities and energy sources. Plans can be made by the developer to correct these environmental problems before they get a chance to occur.

As the developer plans the center, the environmental impact studies must be prepared so that the necessary construction and operating permits and licenses from each of the relevant federal and state agencies can be acquired. The acquisition of permits and licenses may take some time after time is consumed by the preparation of the necessary environmental impact studies. The financing is contingent upon the acquisition of the proper permits and licenses so that construction may start.

The regulatory agency usually wants a description of the center being developed. The summary of the development plans should be followed by a description of the environment before the commencement of construction. The federal and state regulators then wish to know what impact the center will have upon the environment. What impact will the center have on the land form? Noise? Water quality? Air quality? What impact will the center have on natural systems such as the landscape, the vegetation, and the wildlife? What impact will there be on the open space system including the park and recreation systems of the community, region and state? What impact will the center have on the historical and scientific resources of the area? Will the center impact on other environmental features of the area and region?

The developer will need to analyze any adverse environmental effects caused by the center which cannot be avoided. What alternative measures can be taken by the developer to minimize these adverse environmental effects? What measures does the developer plan to take to maximize the relationship between local, short term used of the land and the enhancement of long term productivity of the land? Will irreversible changes occur when the center is completed and in operation? Will the center induce further growth in the area or region?, What kind of growth?

After the regulatory agency reviews the developer's summary of the ecological and environmental impact of the proposed center, the regulatory agency mayor may not issue construction and operating permits and licenses for the development. The developer may need to make changes in plans to gain the permits and licenses in, order to proceed with the project.

Planned Unit Development (PUD) - Because conventional zoning lacks flexibility, the PUD evolved permitting assignment of various uses to a tract of land in accordance with "modern planning and the particular terrain features of the tract of land.

Section 3
Key Elements in Site Selection

Before plans for the center can move forward, the site must be selected and put under developer control. The key elements in the site selection process are:

• Population in the trading area and its trend
• Population demographics and their trends
• Traffic count
• Access to the property
• Driving time to the site
• Visibility
• Competition in the trading area
• Size and shape of the site
• Site conditions
• Ecology of the site and potential sources of pollution

Most of these factors have been considered, but let us consider a few additional factors related to the key elements of site selection. The population of the metropolitan and regional trading areas is usually broken down into the populations of the one - mile, two - mile, and five - mile trading radii of the center. The trends in the population sectors are noted. Successful development usually requires "up trends" or expected future increases in the majority of the trading area sectors. The trading area demographics should agree with the proposed characteristics such as age distribution, ethnic group concentration, income distribution, predominating life styles, religious preferences, racial composition, and educational levels of achievement.

The traffic counts for the portion of the roadways adjacent to the center are important, but the type of traffic is even more important. There must be easy visual observation of the retail offerings. The more motorists that are aware of the shopping center location, the more heavily the center will be patronized. The traffic analyst should note the volume of the traffic at various times of day over the various days of the year. Traffic congestion will probably occur at specific times of the day. The ultimate question is "will the usual traffic benefit the proposed shopping center?"

The site must be accessible to the potential customers. The driving time to the shopping center is strategically important. Longer driving times will concern regional and super regional center developers.

Since the center should be visible to the prospective customer, it should not be built too high on a hill or in an extremely low place. Trees and other obstructions should not prevent the driver on an adjacent interstate freeway from seeing the shopping center. A location in a high or low spot may be detrimental during the winter when ice and snow create hazardous driving conditions on steep inclines. A low place will attract water flows from the thawing of ice and snow. High locations will probably provide their own drainage which may or may not create problems on adjacent land, but low places will need substantial drainage facilities.

The competition in the trading area must be noted and analyzed for its impact on the proposed center. There may or may not be direct competition for the proposed investment. The proposed center may be complementary to the existing retailing. Even if direct competition exists, the proposed development may offer superior goods and services, better parking, better access, better and more attractive design, better center management and better merchandising in a new, totally planned, weather-controlled facility. A superior share of the market may be attained with this winning combination. Then again, the existing- competition should not be underestimated. The potential customers of the trading area may be very loyal to the merchants they have patronized for years. The shopping patterns may have become entrenched; habitual shopping routines may have developed and may not easily be broken.

The size of the tract must, at a minimum, accommodate the center buildings and the necessary parking lots. The shopping center site itself must be the appropriate shape. The surface and soil conditions must be appropriate for the development, but the immediate subsurface conditions must permit the digging of foundations. In commercial districts of major metropolitan areas, the foundation work may involve many underground cables, utility lines, subway tunnels, truck delivery streets and tunnels, and other such complicated underground systems.

When residential buildings are demolished to make way for the shopping center, some will question the displacement of people. The developer may have to aid the original building tenants in finding substitute residential space in order to quiet public clamor. Displacement of lower income people without developer assistance can prompt negative press very easily.

The development of a shopping center is not a "one man show". A team of experts from various fields is formed to produce a profitable shopping center within a scheduled time period. The team usually includes: developer, leasing agent, attorney, architect, general contractor, lenders, advertising professionals, knowledgeable principals, investors and accountants.

Section 4
Building Design

As discussed in Section 1, center designs include strip, L - shaped, U - shaped, open mall and enclosed mall. The strip design with parking in front, on the side and behind is most often used for neighborhood centers that incorporate only a few stores. The largest store, usually the grocery, is usually located on the end so that parking spaces on three sides may accommodate the customer volume. The L - Shaped center may accommodate two key tenants, one at the end of each extension. When store rooms and retail buildings are placed around a focal point, such as, a center court, fountain, or major intersection of several walkways, this center configuration may be an open or enclosed mall. If a roof ties the buildings and store rooms together so that the customer may enjoy climate control, we may view an enclosed mall. Whether the outside weather fluctuates drastically with the seasons or not, enclosed malls are preferred for regional, super regional and specialty centers.

The shopping center today may encompass any number of levels. The majority still have either one or two levels. Larger super regional centers tend toward two or more levels since a large mixture of shopping and specialty stores is accommodated under the umbrella of the roofing system. Specialty malls in congested areas of major cities often consume space on several levels.

The multi - level enclosed mall has complicated engineering and merchandising opportunities and problems.. Several multi - level transportation systems for customers must be employed for comparison shopping. Grouping of tenants to assure relatively even customer drawing power in the various corridors and mall locations must be engineered. The merchandising of the center is more complicated because a greater variety of tenants may be located in these unusually large multi - level malls. The multi - level mall need not necessarily involve substantial square footage of retail space, but usually does.

The shopping center design must conform to building code requirements. The building code requirements vary between single - level and multi - level centers. The construction materials must achieve specified fire ratings. The codes affect plans for egress, construction dimensions for corridors, passage ways and stairs, and provisions for handicapped customers. There are usually code specifications that affect mall widths and ceiling clearances including the space around kiosks.

Fire walls may be needed between tenant storerooms. There are mechanical, electrical and other such codes that have a bearing on the energy systems of the center. The building codes may have a bearing on the plans for food malls or courts, kiosk locations and sizes, public toilet facilities, service and utility areas and theme or specialty areas of the large center. The developer has to plan the right tenant mix, store room size, building layouts and store room layouts in light of the building code requirements.

The facade must be selected on the basis of customer attraction, original cost and maintenance cost. The customer looks for new and exciting retail environments when a purchase decision is imminent. The exterior of the center must attract favorable attention of the prospective purchaser. Centers with competing goods and services should appear less attractive to this ultimate consumer. Many shoppers seek individual and family entertainment by going to the mall. The up to date design of the facade should blend with the interior design and the tenant merchandising to give entertainment to the purchaser while goods and services are being selected for purchase.

Section 5
Marketing Considerations

Tenant Mix

The tenant mix has two aspects: The balance between national, local chains and independent stores and the balance among the various storeroom classifications.

Generally over 80% of the gross leasable area of super regional centers is occupied by national chain store units. Another 15% of the super regional GLA is occupied by local chain stores. The national chain stores represented a little less of the GLA of regional centers while local chain stores represented a little more of the GLA of these centers. Independent stores represent 10% or less of regional shopping.

Most of the space of super regional and regional centers is devoted to general merchandise units including major department stores. In the mall buildings alone, about a quarter of the GLA is devoted to clothing stores and about 15% of the GLA to general merchandise stores. Another 15 to 20% of the GLA is devoted to food and food services. Many other types of stores offering convenience, shopping and specialty goods and services make up the rest of the GLA of the super regional and regional centers.

In contrast, community centers devote about one - third of their space to general merchandise stores, and neighborhood centers devote about the same amount of their space of food and food service stores. General merchandise stores comprise less than 10% of the GLA of the neighborhood center. Food and food service sales make up two - thirds of the sales of neighborhood centers, but only 40% of the sales of community centers. One - fourth of the sales of community centers come from general merchandise stores,

Stores should be placed so that traffic generated by one benefits the others and so that competition is not a detriment. In many cases, two or more businesses of the same kind in a center stimulate competition and add to the total volume of business transacted. In other situations, customer traffic is merely divided between the two retail outlets and neither profits.

Leasing

Leasing is one of the shopping center's most critical activities. Because each retail outlet in a shopping center depends on the traffic generated by other outlets and because percentage leases often are used which give the owner a vested interest in the retailer's success, quality tenants and the proper mix of types of stores are a must in retail space.

To support the leasing efforts, the shopping center will usually engage in advertising campaigns with the use of multiple media. Advertising is essential for shopper recognition and awareness of the center existence, location, and goods and services offerings.

The vehicles for the presentation of ads promoting the services, facilities and merchandise of the center include internet websites, print and broadcast media. Other media are outdoor displays, such as billboards, and sales promotion devices. Print media might include brochures, direct mail campaigns, newspaper and trade publications. Broadcast media might include radio spots and television spots. Personal contact solicitation cannot be forgotten. It is probably the most effective method of finding shopping center tenants, especially for small properties. The leasing agent should build up a file of prospects and make regular cold calls on merch3htsin the trade territory of the shopping center, calling on those whose particular line of merchandise is needed in the center. The leasing agent should keep a record of the termination dates of leases of competitive space and start canvassing for prospects a year or two before leases expire. Aggressive, successful merchants who are tenants in centers that are not well maintained are good prospects. Acquaintance through professional and civic organizations well in advance of an expiration date also is an excellent means of generating prospects.

Contacting key commercial brokers in the area to bring prospects to the building by offering a commission split can also be useful. Broker campaigns can increase the property's exposure in the market and help to reduce leasing time.

After evaluating a merchant in terms of tenant mix, the leasing agent should look at the prospects needs. Concerns to be noted are the adequacy of the parking facilities, gross amount of available leasable space and suitability of the customer market for the prospect's type of business. The leasing agent should be certain that the tenant prospect is the best possible merchant for the particular space and that, given the market, the prospect will do the highest volume of business at that location. Financial backing is also important. The tenant must be solid enough to pay for or obtain financing for tenant alterations, fixtures, inventory, advertising, rent, percentage rent, insurance, maintenance and other operating expenses. A merchant's success in a given location hinges on accurate qualification. After being qualified, the tenant is shown the space and the leasing process moves into the final stages.

There are several lease types available to the merchant, the net lease or the percentage lease. A net lease, requires the tenant to pay rent plus certain costs incurred in the operation of the property. A percentage lease, which is more common in retail settings, requires the tenant to pay a percentage of its gross income as rental consideration in addition to rent.

The advantage of a percentage lease from the tenant's point of view is that it is a long-term lease with a fair minimum rental, obligating the tenant to pay additional amounts only when business volume justifies an increase. From the center's perspective, the percentage lease implies that any new business is due to the tenant's location and the marketing efforts of the owners and the manager. The owner is allowed to share in the increasing value of the business volume and the location. The principal disadvantage is the difficulty of obtaining a complete and accurate reporting of tenant sales.

In calculating space to derive base rent, the number of square feet in a ground floor store area is computed by measuring from the building line in the case of street frontages and the inner surface of corridor and other permanent partitions to the center of partitions that separate the premises from adjoining rentable area. No deductions are made for vestibules inside the building line or for columns or projections necessary to the building. No additions are made for bay windows extending outside the building line.

Shopping center leases negotiated between the developer and the retail merchant usually contain clauses dealing with the following Subjects:

- Lease term
- Starting and ending lease dates
- Rent payments due
- Percentage rent conditions
- Indexed base rent conditions
- Site plan related to the retail space
- Reciprocal easement agreements

- Operational rules and regulations and default clause
- Expansion provisions
- Provisions for subsequent destruction and loss through the exercise of eminent domain
- Sales reporting
- Record keeping
- Right of developer to audit retailer books
- Tax payment
- Insurance coverage and premium payment
- Common area maintenance responsibility and expense assumption
- Storeroom use and restrictions
- Assignment and subletting
- Financing contingency conditions
- Promotion and advertising

Through the lease, the retail merchant is subject to the general operational rules and regulations of the shopping center. These rules and regulations pertain to such factors as hours open for business, days open for business during the year, employee parking, rubbish control, in store and store front signage, noise levels, and common area use. If the operating rules and regulations as well as other lease terms are violated, the lease may be terminated due to default or violation of lease terms. Specific conditions for default and lease termination should be spelled out in the lease.

The tenant is charged with the improvement of the store room or building shell after the developer has constructed the foundation, outer walls, and roofs over the center building. These lease terms show the agreement between the developer and tenant regarding the responsibility for construction, maintenance, and repairs of the land improvements inhabited by the tenant.

Lease agreements usually require that each tenant is covered by appropriate store room and inventory insurance. Insurance paid by the tenant that protects the center premises must be payable jointly to the tenant and the developer/owner in case of insured disaster. Some owners require each tenant to be covered by income insurance or business interruption insurance so that the lease payments may be made if a disaster occurs. Generally, the owner/developers are responsible for the outer building shells and the mall space while the tenants are responsible for the building store room interiors and their inventories of merchandise.

Section 6
Merchant's Association

The success of a shopping center requires the harmonious functioning of the merchant's association or promotional fund. Some centers operate more smoothly to the increased profitability of all parties involved when the merchants and the owner join together in a merchant's association. They periodically discuss their common problems and jointly sponsor advertising and promotional efforts which benefit the overall center and its merchants individually. Disputes and-differences of opinion among the individual merchants are avoided, and the monies contributed by each merchant under the lease agreement to the promotional fund are advantageously spent by the professional management of the center in support of the management's plans for marketing.

Usually the regional and super regional centers utilize the merchant's association mechanism while the neighborhood centers tend to have no merchant's association or promotional fund at all.

Most of the assessments for the association of the promotional fund are allocated to the tenants on the basis of square feet of GLA leased, but a few centers base their assessments on front footage, percent of sales, or other allocative means.

F or more information on shopping centers and their development ~ contact the International Council of Shopping Centers.