



Factors in Considering a Shopping Centre Location

Small retailers, who seek new sites for their stores, or service shops, should add the shopping centre to their lists of possible locations. When they do, however, they should be aware that the advantages of the shopping centre for one type of retailing might be disadvantages for another.

The purpose of this tool is to provide small retailers with background information to help them decide whether to locate their stores in shopping centres, should such a decision be necessary. Among other things, it discusses the landlord-tenant relationship and the cost picture. Both of these factors are more complicated in shopping centers than in other locations.

Where you locate your store is one of your most important decisions. This fact is true whether you are opening a new store, starting a second outlet, or renewing your present lease. The problem is to find the right location for the right undertaking because a location can make or break a business.

Different stores have different location requirements. You would not put a toy store in a retirement village or start a garden supply store in a rental apartment house district. The customers you serve, the things they buy, and the way they reach your store, the adjacent stores, and the neighborhood all bear upon the location. These factors must be related to the types and characteristics of shopping centers when you are considering a shopping centre as a site.

1. Shopping Centre Characteristics

Shopping centers are distinctly different from the other two major locations--that is, downtown and local business strips. The shopping centre building is pre-planned as a merchandising unit for interplay among

Tenants. Its site is deliberately selected by the developer for easy access to pull customers from a trade area. It has on-site parking as a common feature of the layout. The amount of parking space is directly related to the retail area.

Customers like the shopping centre's convenience. They drive in, park, and walk to their destination in relative safety and speed. Some shopping centers also provide weather protection, and most provide an atmosphere created for shopping comfort. For the customer, the shopping centre has great appeal.

For the merchant deciding whether or not to locate in a shopping centre, these "plus" characteristics must be related to the limitations placed upon you as a tenant. In a shopping centre, a tenant is part of a merchant team. As such, you must pay your pro rata share of the

budget for the team effort. You must keep store hours, light your windows, and place your signs within established rules.

2. What Are Your Chances?

Whether or not a small retailer can get into a particular shopping centre depends on the market and management. A small shopping centre may need only one children's shoe store, for example, while a regional centre may expect enough business for several. The management aspect is simple to state: developers and owners of shopping centres look for successful retailers.

In finding tenants whose line of goods will meet the needs of the desired market, the developer- owner first signs on a prestige merchant as the lead tenant. Then, the developer selects other types of stores that will complement each other. In this way, a "tenant mix" offers a varied array of merchandise. Thus, the centre's competitive strength is bolstered against other centers as well as supplying the market area's needs.

To finance a centre, the developer needs major leases from companies with strong credit ratings. The developer's own lenders favor tenant rosters that include the triple-A ratings of national chains. However, local merchants with good business records and proven understanding of the local markets have a good chance of being considered by a shopping centre developer.

But even so, a small independent retailer can sometimes play "hard to get." When most spaces are filled, the developer may need you to help fill the rest of them. If you are considering a shopping centre for a first-store venture you may have trouble. Your financial backing and merchandising experience may be unproved to the owner-developer. Your problem is to convince the developer that the new store has a reasonable chance of success and will help the "tenant mix."

3. What Can the Centre Do for You?

Suppose that the owner-developer of a shopping centre asks you to be a tenant. In considering the offer, you would need to make sure of what you can do in the centre. What rules will there be on your operation? In exchange for the rules, what will the centre do for you?

Even more important, you must consider the trade area, the location of your competition, and the location of your space in the centre. These factors help to determine how much business you can expect to do in the centre.

In a Neighborhood Shopping Centre, the leading tenant is a supermarket or drug store. The typical leasable space is 50,000 square feet but may range from 30,000 to 100,000 square feet. The typical site area is from 3 to 10 acres. The minimum trade population is 2,500 to 40,000.

In a Community Shopping Centre, the leading tenant is a variety/junior department store or discount department store. The typical leasable space is 150,000 square feet but may range from 100,000 to 300,000 square feet. The typical site area is 10 to 30 acres. The minimum trade population is 40,000 to 150,000.

In a Regional Shopping Centre, the leading tenant is one or more full-line department stores. The typical leasable space is 400,000 square feet with a range from 300,000 to more than 1,000,000 square feet. The typical site area is 30 to 50 acres. The minimum trade population is 150,000 or more. When the regional centre exceeds 750,000 square feet and includes three or more department stores, it becomes a SUPER-REGIONAL CENTRE.

The Centre's Location

In examining the centre's location, look for answers to questions such as these:

- Can you hold old customers and attract new ones?
- Would the centre offer the best sales volume potential for your kind of merchandise?
- Can you benefit enough from the centre's access to a market? If so, can you produce the appeal that will make the centre's customers come to your store?
- Can you deal with your logical competition?

To help answer such questions, you need to check out:

- the trade area and its growth prospects;
- the general income level in the trade area;
- the number of households; and
- the share of various age groups in the population. If your line were clothes for young women, for example, you would not want to locate in a centre whose market area contains a high percentage of retired persons.

Make your own analysis of the market, which the developer expects to reach. In this respect, money for professional help is well spent, especially when the research indicates that the centre is not right for your type of operation.

Your Space

Determine where your space will be. Your location in the centre is important.

- Do you need to be in the main flow of customers as they pass between the stores with the greatest customer pull?
- Who will be your neighbors?
- What will be their effect on your sales?

HOW MUCH space is also important.

Using your experience, you can determine the amount of space you will need to handle the sales volume you expect to have in the shopping centre. And, of course, the amount of space will determine your rent. Many merchants need to rethink their space requirements when locating in a shopping centre. Rents are typically much higher and, therefore, space must be used very efficiently.

Total Rent

In most non-shopping centre locations, rent is a fixed amount, which has no relationship to sales volume. In shopping centers, the "rent" is usually stated as a minimum guaranteed rent per square foot of leased area against a percentage. Typically, while this is between 5 and 7 percent of gross sales, it varies by type of business and other factors. This means that if the rent as calculated by the percentage of sales is higher than the guaranteed rent, the higher amount is the rent. If it is lower than the guaranteed rent, then the guaranteed rent is the amount paid.

But this guarantee is not the end. In addition, you may have to pay dues to the centre's merchant association. You may have to pay for maintenance of common areas. Consider your rent, then, in terms of "total rent." If, and when, this "total rent" is more than your present rent, your space in the centre, of course, will have to draw sales enough to justify the added cost.

Finishing Out

Generally, the owner furnishes the bare space. You do the "finishing out" at your own expense. In completing your store to suit needs, you pay for light fixtures, counters, shelves, painting, and floor coverings. In addition, you may have to install your own heating and cooling units. (Your lease should be long enough to pay out your "finishing out" expense.)

An innovation is the "tenant allowance." By this system, landlords provide a cost allowance towards completion of space. It is for storefronts, ceiling treatment, and wall coverings. The allowance is a percentage of their cost and is spelled out in a dollar amount in the lease.

Some developers help tenants plan storefronts, exterior signs, and interior color schemes. They provide this service to insure storefronts that add to the centre's image rather than subtracting from it.

4. Types of Shopping Centers

Because each planned shopping centre is built around a major tenant, centers are classed, in part, according to this leading tenant. According to tenant makeup and size, there are three types: neighborhood, community, and regional.

Neighborhood

The supermarket or the drugstore is the leading tenant in a neighborhood centre. This type is the smallest in size among shopping centers. It caters to the convenience needs of a neighborhood.

Community

Variety, junior department stores, or discount department stores lead in the next bigger type--the community centre. Here, you find room also for more specialty shops, need for wider price ranges, for greater style assortments, and for more impulse-sale items. In recent years the community centre has also been designed around the home improvement department store which combine hardware, lumber, electrical, plumbing, flooring building materials, garden supplies, and a variety of other goods under one roof. The shops that are grouped around this type of anchor tend to be similar in character and may include custom kitchen and bath shops, upholstery, bedding, drapery, and other such shops. While this type of centre tends to meet the Community Shopping Centre definition as to floor area and site size, its market may be more like a regional centre.

Regional

The department store, with its prestige, is the leader in the regional centre--the largest type of shopping centre. When you find that a second or third department store is also locating in such a centre, you will know the site has been selected to draw from the widest possible market area. Super-Regional Centers have been developed with as many as 5 department stores. You will find, too, that the smaller tenants are picked to offer a range of goods and services approaching the appeal once found only downtown.

The latest development in regional shopping centers is the enclosed mall. This type of centre is designed to shut out the weather and to serve a larger trade area than other regional centers. Customers enjoy the open storefronts, the easy entrance, and the "all-weather" shopping. Tenants enjoy more centre-wide promotions because of weather control.

An enclosed air-conditioned mall enables you to merchandise the full width of your store. The whole store becomes a display area, eliminating window backing and expensive display settings. You can rely on sliding doors or an overhead open drop grill for locking up the store.

If you are considering a mall, you should weigh the benefits against costs. At the outset, it may be difficult to measure savings, such as the elimination of storefronts, against costs, for example the cost for heating and air-conditioning in the enclosed mall.

Specialty Theme Shopping Centers

In addition to the three major categories of shopping centers new types of centers are evolving that have been called specialty or theme centers. In general these centers do not have a major anchor tenant. There is a greater percentage of restaurants and specialty food stores, the other stores tend to be highly specialized with more imported goods, custom crafted goods, designer clothes etc. Also, a greater number of the merchants are independents. Unusual and interesting architectural design is a normal characteristic and frequently a tourist market rather than a resident market exists.

5. Next Steps

Choosing a location in a shopping centre is a significant decision that can impact your business's visibility, customer access, and overall success. By understanding the factors involved, from cost and lease terms to market potential, you can make an informed choice that aligns with your business goals.

Use this tool as a starting point, and don't hesitate to seek expert advice from one of our [Business Advisors](#) to ensure your location strategy supports long-term growth.