


“Marketing foundation for retail and office center’s tenant mix”

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## Marketing foundation for retail and office center's tenant mix

### Abstract

The issues of retail and office center structure formation are developed and presented in the existent literature. This article argues that in each case, these issues need to be refined depending on the location, the number of neighborhood and the surrounding streets' residents, the presence of other shops and services within walking distance, etc. The purpose of this article is to confirm the abovementioned specificity during the marketing research, in order to evaluate the significance of the factors forming the structure of retail and office center for the population and future tenants. A survey of 200 residents and 100 business owners and managers was conducted. The study's results allow the formulation of a framework of retail and office center, determining the number of tenants, taking into account their preferences, and getting a list of interested tenants. It also shows the way to facilitate optimization of the layout of the center with regards to the requirements of the anchor tenants, high-footfall shops and customers; to develop the best routes to distribute customers across the floors and center's zones.

**Keywords:** retail and office center framework, potential customers, potential tenants, market research, survey.

**JEL Classification:** M31.

### Introduction

In one of the districts of a city with a million-plus population, a modern residential neighborhood for 8,000 inhabitants is being built near a natural forest. A well-developed infrastructure, community facilities and social amenities, convenience stores, sporting and other facilities are planned to be created. The district will include 24 houses, a kindergarten, a school, a shopping and office center, and an automated multi-storey car park. During the planning of the neighborhood's infrastructure, there was a question regarding the feasibility of building a retail and office center, possible areas of its specialization, trade format, range, footfall. Shopping centers bring together a variety of shops of manufactured goods and food supermarkets, as well as services and catering with a single concept and vision of the business. Therefore, it was necessary to assess the demand for office space at the shopping center. Solving these problems required conducting a market research.

The issues of forming and justifying of the framework and structure of shopping centers in each case require the identification and consideration of the local specificities, as well as assessing the significance of the factors affecting the retail and office center's framework. Taking into account this consideration is possible only through a market research of preferences of potential customers and tenants.

When forming the shopping center tenant mix, it is necessary to clarify the needs of potential consumers of various groups of goods and services (Gerbich, 1998; Garg and Steyn, 2015). The necessary data can be acquired through market research. In-person survey is the most accurate and timely data acquisition option.

### 1. Literature review and hypotheses

Hypothesis 1: The specificities and the need to consider them when formulating the framework of retail and office center. Factors affecting the formulation of a retail and office center's framework need to be considered: proximity to public transportation, parking availability, centralized building management system, modern fire safety systems, security systems, telecommunications, and the availability of services for tenants.

"As a first approximation, the task of designing shopping centers, shopping malls, is to plan consumer streams, creating a comfortable environment for buyers, convenience for tenants" (Stroy-grup, 2014). As Ryzhikh (2013) rightly pointed "Forming the basic tenant mix is a starting point for advertising part of the project and the development of a consumer interaction strategy". Spivak pointed out the following as the fundamental principles of forming of the concept of the shopping center: "Firstly and most importantly, the concept of any complex should start from the needs and requirements of the target group of consumers on which the complex is focused. All the rest is subject to it: the selection of tenants, architecture and design, space organization, means and methods of promoting complex, etc. Taking into account the requirements of tenants is also vital: accessibility, availability and usability of landing stage, the height of the ceilings, open planning of the leased premises, available energy and other issues (Spivak, 2014).

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“Despite the industry’s constantly changing trends and practices, there are retail rules that have proven successful and become standard, which this article will explicate. Among them are the following:

- ◆ Sustainable shopping centers and urban centers should sell the goods and services (brands and price points) that people desire and need.
- ◆ Shoppers do not need to shop.
- ◆ Convenience of retailing needs.
- ◆ Street-front retailing requires on-street parking.
- ◆ Form follows freeway and finance.
- ◆ Shopping centers over 30,000 square feet in area require anchor stores.
- ◆ Parking must be well planned and convenient, but it does not need to dominate the center.
- ◆ Anchors are essential for downtowns and most shopping districts.
- ◆ Retailers must sell, merchandize and earn profits.
- ◆ Time is the new luxury.

These retail principles have been gleaned from over thirty years of experience in advising shopping center developers and downtown commercial district representatives on the psychology of commerce the practical art of analyzing and adjusting all elements known to affect a shopper’s state of mind, from the location of parking to the level of store lighting (Abrudan and Plaia, 2013). The rules are intended to help municipal authorities and private developers revive retailing in moribund downtowns and to instill successful commerce in new ones. Their purpose is not to turn existing or planned main streets into malls, but to give merchants on the street the same competitive advantage that those in the most profitable shopping centers enjoy” (Gibbs, 2012).

## 2. Research aim

The study aimed to assess the need for office space for tenants of different classes and the necessary services for the population.

To achieve this goal, a number of sub-goals were deemed necessary to reach:

1. investigation of the goods and services requirements of the neighborhood residents;
2. assessment of the demand for office space among tenants of different classes;
3. find out the preferences of potential tenants regarding the following parameters:
  - ◆ term of the lease;
  - ◆ rentable area (m<sup>2</sup>);
  - ◆ ceiling height, (m);
  - ◆ parking availability;
  - ◆ proximity to public transport;
  - ◆ centralized building management system;

- ◆ availability of modern fire safety systems;
- ◆ security systems;
- ◆ telecommunications systems’ availability;
- ◆ services for tenants (coffee shop, ATM, shops, dry cleaning, newsstand, etc.).

Questionnaires were put together in accordance with the formulated tasks and filled by the residents, business owners and managers. The results of the research allow assessing the tenants’ intention to occupy space in the retail and office centers, assessing the need for the rented areas, planning pre-positioning of the tenants on the floors of the building, reconciling the needs of residents in certain area with the requirements of tenants and generating lists of potential tenants. Building these lists on results of the study ensures that the needs of residents and constructive possibilities of the building will be met optimally. Thus, the study can become the basis for formulating the framework of retail and office center.

## 3. Research methods

The interviewees were selected based on the geographical location: the residents of the residential neighborhood and the near-by streets (a population of around 8,000 people, 2,157 households). These people are more likely to shop at the future retail center, therefore, they are considered the primary customers.

In order to calculate the required sample size, the following formula developed by authors was used:

$$n = \frac{Z^2 \sigma^2 N}{\Delta^2 N + z^2 \sigma^2}, \quad (1)$$

where  $n$  – sample size,  $N$  – population size (8,000 people),  $\sigma$  – dispersion (0.5),  $\Delta$  – estimated error (7%),  $z$  –  $z$  score of 0.95 (1.96).

The calculation returns a sample size of 191.31. Therefore, during the survey, 200 potential customers were given questionnaires, asking them what services they require at a retail center, as well as how frequently they buy certain product categories (food, alcohol, household goods, clothes, footwear, perfume and cosmetics, stationery) and the average sum they spend on each. The survey enquired on household purchases, not the individual ones.

The goal of determining the intentions of potential tenants regarding the lease of commercial and office space in a newly built center has been solved by surveying 100 owners and managers of different types of businesses. Businesses have been identified in accordance with the results of a survey of residents of the neighborhood. Justification of the sample size was based on the formula (1) above, the calculations showed that 92 participants is a sufficient coverage.

#### 4. Analyses and results

**4.1. Study of potential customers' requirement and the importance of types of services.** Besides shopping in the modern shopping centers, customers

can use different types of services it provides. The importance of services was assessed by the question: "What services do you require?" The survey results are shown in Figure 1 below.

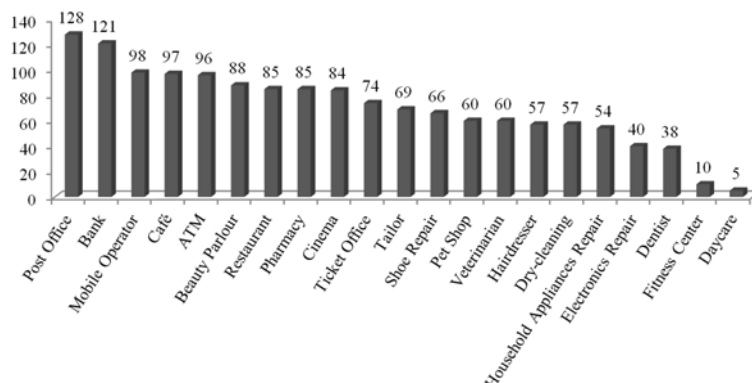


Fig. 1. Shopping center's services rating

Postal office and banking were named the most popular services. In addition to the services listed above, park and entertainment center (2 respondents); parking, photocopying and printing services and driving school (1 respondent) were mentioned. The need for parking was not considered because it is already a part of the shopping center's infrastructure.

Analysis of the potential tenants' readiness to place their offices and shops in a newly built shopping and office center was carried out in accordance with the pre-defined objectives listed in Table 1.

Table 1. Different office areas requirements' evaluation

Issue	Questionnaire's items
Forming the list of potential tenants	Is your organization interested in renting an office in the retail and office center?
Analyzing potential renters' requirements regarding office types	Please mark the office type and rent suitable for your organization (A; B+; B-; C)

Analyzing potential renters' requirements regarding rent term, rented area (m <sup>2</sup> ), ceiling height (m)	In the table, please mark your organization's preferences in office characteristics (rent term, floor, area (m <sup>2</sup> ), ceiling height (m))
Analyzing potential renters' requirements regarding parking, proximity to public transport; centralized building management system; modern fire safety systems; security systems; telecommunications systems' availability; services for tenants	In the table, please mark how important these office characteristics are for your organization (on the scale from 1 to 5)

**4.2. Assessment of the business owners and managers' interest in renting an office or shop at the center.** In the course of market research, a survey of 100 company owners and managers across the city was conducted. The survey of owners and managers focused on the business areas of interests to the residents of the neighborhood and identified how interested in renting an office or a retail space the companies are. The results are shown in Figure 2. According to the survey, 87% of potential tenants were interested in renting an office in the new shopping and office center.

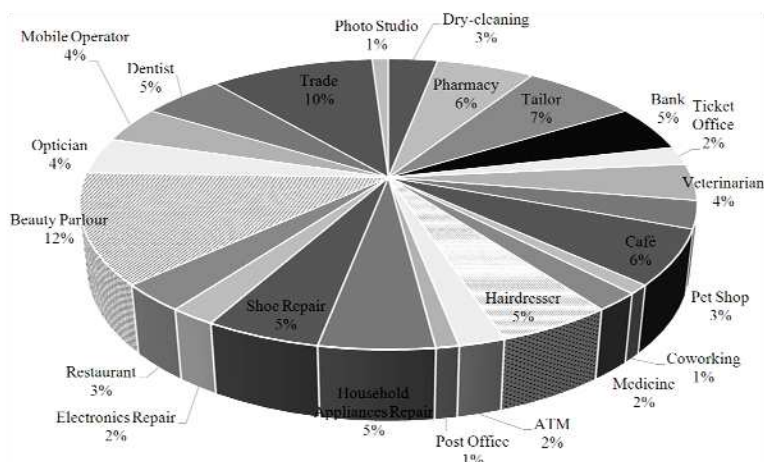


Fig. 2. Structure of the surveyed organizations by business activity

**4.3. Analysis of potential tenants' preferences for the office class.** Moscow Research Forum in 2013

updated classification of office buildings applicable to modern quality buildings (Class A, B +, B-)

(Welhome, 2013). A building class A, B + or B should meet all the respective criteria (one failure of mandatory and four optional criteria are allowed).

All the buildings that do not meet the abovementioned parameters are classified as building class C and below.

Table 2. Office building classification criteria

A	B+	B-
<i>Centralized building management system</i>		
Mandatory	Optional	N/A
<i>Heating, ventilation, air conditioning and humidification</i>		
Heating, ventilation, air conditioning and humidification system allows for temperature control in a separate office block	Heating, ventilation, air conditioning and humidification system is present	
Mandatory	Mandatory	Optional
<i>Heating, ventilation, air conditioning and humidification system's capability</i>		
The system is capable of cooling server rooms for 24 hours, supporting the average temperature of $22-23^{\circ}\text{C} \pm 1^{\circ}\text{C}$ in the offices, performing air exchange of $60\text{m}^3$ an hour for $10\text{m}^2$ of rented area in accordance with the building's expected occupancy		
Mandatory	Recommended	N/A
<i>Up-to-date fire safety system</i>		
Mandatory	Mandatory	Mandatory
<i>Elevator</i>		
Up-to-date high-quality high-speed elevators of leading international brands		Up-to-date elevators for three-storied buildings or higher
Mandatory	Mandatory	Mandatory
<i>Maximum waiting time for an elevator no more than 30 seconds</i>		
Optional	N/A	N/A
<i>Electricity</i>		
Two independent power supplies with automatic switchover, or a diesel generator to provide electricity during power shortages (electric power for the tenants at a one-time capacity for one $\text{m}^2$ of usable office space must be at least 70 VA), uninterruptible power supply for emergency power supply		
Mandatory	Optional	Optional
<i>Security system</i>		
Up-to-date security and access to the building control systems (video surveillance for all entrances, including a parking lot, electronic pass system, round-the-clock security service)	Video surveillance for all entrance groups, round-the-clock security service. Electronic pass system is recommended	
Mandatory	Mandatory	Mandatory

Analysis of potential tenants' preferences on office types gave the results as shown in Table 3.

Table 3. Building type preferences

Building type	Percentage of respondents
A	13%
B+	33%
B-	37%
C	13%
No preference	4%

It should be noted that in a newly built shopping and office center it is planned to feature offices of various classes, therefore, able to meet the needs of all types of tenants.

**4.4. Analysis of potential tenants' lease term preferences.** The study identified the necessary and desirable terms of rent for office rental and sales areas. 41% of potential tenants were interested in the long-term lease, a quarter of respondents planned to rent premises for a period of at least one year, 4-5% of the organizations indicated 2-5 year period (Figure 3).

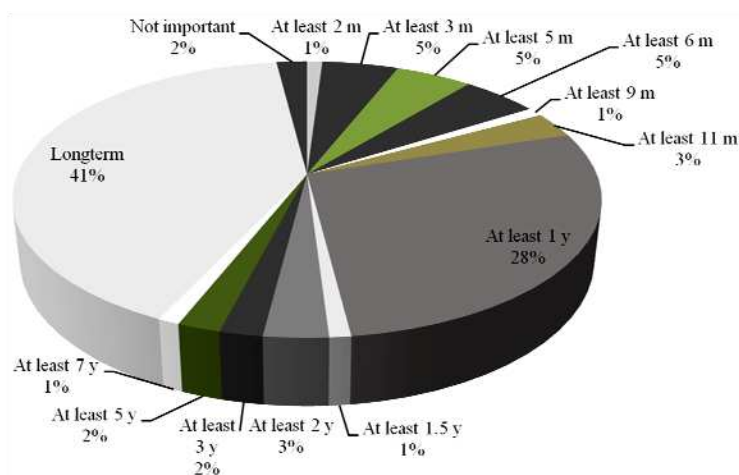
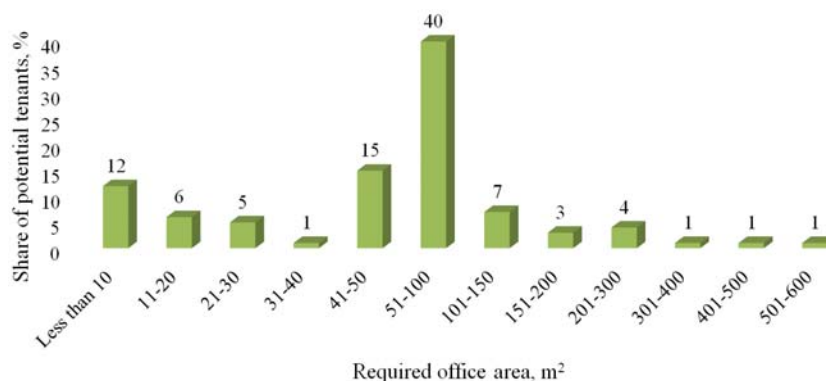


Fig. 3. Desirable terms of rent in the retail and office center

**4.5. Analysis of potential tenants' leased premises parameters preferences.** Analyzing the preferences of potential tenants regarding the office floor showed that the majority of organizations do not have a clear preference towards the floor, and are considering the placement office on one of the several floors (e.g., from the ground to the 4<sup>th</sup> floor). According to the survey, the largest share of organizations (68%) prefer to have an office on the 2nd floor. The

majority of respondents would prefer to have their office not higher than on the 5th floor, 8 companies responded that it does not matter what floor the office is on or could not decide. According to the survey, the total demand for office space was 8,726 m<sup>2</sup>. The most popular were the premises with the area of 51-100 square meters (40% of respondents), 41-50 m<sup>2</sup> (15% of respondents) and 10 m<sup>2</sup> (12% of respondents), as is illustrated in Figure 4.

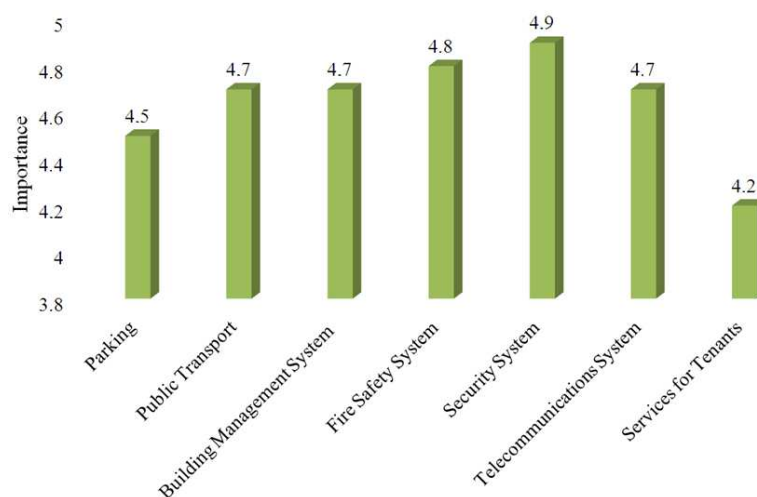


**Fig. 4. Office space preferences' distribution**

The preferences of potential tenants for ceiling height in offices and sales rooms were also analyzed: 42% of organizations do not have specific preferences, whilst the highest number of respondents (51%) require ceiling heights of 2.5-3 meters.

In the course of the market study, importance of retail and office center offices' characteristics was assessed on 5-point scales. We considered such characteristics

as public transportation proximity, parking availability, centralized building management system, modern fire safety systems, security systems, telecommunications systems, and services for tenants (coffee shops, ATM, shops, dry cleaning, newsstands). Most of the organizations surveyed assessed the importance of all the characteristics of the office highly, giving them 4-5 points, as can be seen from Figure 5.



**Fig. 5. Assessment of importance of retail and office center's characteristics**

Respondents identified security systems (4.9 points) and fire protection (4.8 points) as the most important characteristics. They rated centralized building management systems, the availability of a telecommunication system and the proximity of public transport equally, at 4.7 points. A car park and the availability of additional services such as cafes, shops and ATM were names the least important characteristics, at 4.5 and 4.2 points, respectively.

According to the results of the study, it is advisable to position groups of potential tenants in terms of proportion of interested tenants and desired size (m<sup>2</sup>), as is illustrated in Figure 6.

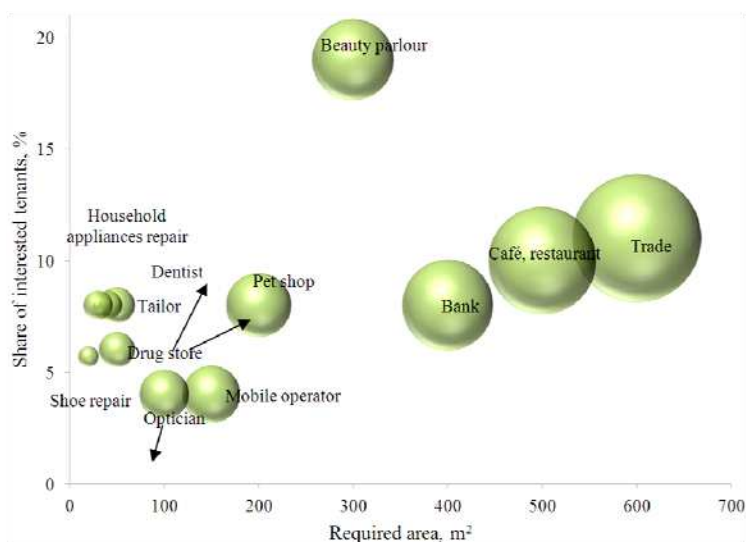
Positioning can justify formulating the framework of the shopping center and a portfolio of tenants. Commercial and technological framework was created on the basis of market research. In



accordance with the Commercial and technological framework of the shopping center (Mall, 2014), it is designed to determine:

- ◆ shopping center's format;
- ◆ the number of stores of a particular category;
- ◆ the number of companies providing services of a particular category;
- ◆ presence/absence of the entertainment component;
- ◆ accommodating 'anchor' tenants that can provide a steady stream of visitors.

It should also be noted that a framework of a shopping center includes a selection of tenants and most successful distribution of retail space between them.



**Fig. 6. Potential tenants' services positioning**

Evidently, beauty parlors and hairdressers are the most interested in renting the space at the mall. At the same time, they require a relatively small area (201-300 square meters), and the demand for these services is high, as is shown in Figure 1. To make an informed decision, service norms should be taken into account. The rate of customer service for beauty salons and hairdressers is on average of 45 minutes per customer. In a 12-hour shift, a master stylist can serve 16 customers, 14 when accounting for breaks. The number of residents of the neighborhood is 8,000. According to the survey, residents visited barbershops an average of once every three months. The daily flow of customers will therefore be  $8,000 \cdot 4/365 = 87$  people per day. Consequently, customer service requires six jobs ( $87/14$ ), which can be placed in a single area of 300 square meters, and, according to prospective tenants, it can be situated anywhere from the ground floor to the fourth floor.

The next level of demand is a commercial enterprise, which potential tenants are willing to situate on an area of 600 square meters. The choice of the optimal size of the store network of retail space is a difficult task, requiring in-depth analysis and additional market research (Kanayan and Kanayan, 2009). As is shown above, market research has confirmed the need to accommodate the food store, but in accordance with the established practice, hypermarkets or supermarkets are placed in shopping centers. With regard to the scope, in accordance with Ilyukha (2014), "supermarket – is a trade area of 600 square

meters and up to 5,000 square meters", which corresponds with the data obtained in current research. Supermarkets are usually located on the ground floor and storage and utility rooms can be placed in the basement.

Nine percent of the respondents expressed the desire to rent space for a café or restaurant. Setting up catering in Russia is carried out in accordance with the Construction Regulations (SNIP) (Designing of public catering Reference Guide, 1992), which set forth the following restrictions:

- ◆ A room of less than 5m<sup>2</sup> is not allowed.
- ◆ Ceiling height of catering premises to the bottom of the overhung structures and hung ceilings must be at least 2.7 m. For production premises, it is recommended to assume the height of 2.7 m at the venues with up to 150 seats.
- ◆ In the design of complex catering it is recommended that the groups of storage facilities, administrative and residential buildings and utility spaces are designed unified for the entire complex with a possible reduction in their total area of up to 10%-15%.

The planned retail and office center complies with the requirements, floor space of 500 m<sup>2</sup> is sufficient for the integrated enterprise of recommended capacity of up to 100 seats in the hall. According to prospective tenants, a café or a restaurant should be situated between the ground floor and the fourth floor.

In accordance with the requirements of 60% of the population and 5% of potential tenants, a bank branch will be located in the retail and office center. Buildings and premises of bank branches in Russian Federation are designed and built in accordance with a system of normative documents related to the construction and departmental design standards (VNP) based on regulations on construction of venues of the Bank of Russia Departmental Design Standards VNP 001-01 dated 10 January 2002, and the Order from 20 May 2010 On Amending the Departmental Design Standards, approved by order of the Central Bank of the Russian Federation from 10 January 2002 №OD-7.

VNP applies to designing new and renovated buildings, as well as to designing the premises of these institutions to be placed in the multi-purpose buildings. The design of the new retail and office center complies with the aforementioned documents, an area of 400 m<sup>2</sup> is sufficient, and the accommodation of the branch is possible anywhere from the ground to the fourth floor, according to the prospective tenants.

Based on the responses of potential customers, main tenants include a post office, a pet shop, a veterinarian's office, a pharmacy, a tailor's atelier, electronics and home appliances repairs, shoe repairs, optician's office, a mobile operator's branch, dental surgery and possibly a number of other venues. Designing these venues does not have to comply with any restrictions and special conditions, so they can be placed anywhere between the ground floor and the fourth floor.

## Conclusions

The market research helped identifying the factors affecting the formulation of the framework and structure of retail and office center that meets the requirements of both the population and the future tenants. Based on the results of the study, the main factors are: the lease term, the size of the leased area, ceiling height, proximity to public transportation, centralized security systems, building management, fire safety, telecommunications, as well as the availability of services for tenants.

Evaluation of the factors' importance in each specific case allows formulating the framework of the center, determining the number of tenants, accounting for their preferences, getting a list of interested tenants, optimizing the layout of the center, as well as developing the best routes, distributing the customers on the floors and central zones even before construction of retail and office center.

The need to build retail and office center in the new neighborhood is obvious, but to address the crucial issue of the tenant mix (Kirkup and Rafiq, 1994) and a list of priority tenants who expressed the greatest interest in placing their shops and offices at the mall, it is advisable to conduct market research. It allows estimating the demand for goods and services based on actual consumer needs, rather than to use trial and error in the process of filling the shopping center.

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