

LEASING A COMMERCIAL SITE



Peter Buckingham, Managing Director of Spectrum Analysis

In my view, when selecting a commercial site to operate a business from, there are four questions you need to address:

1. What area should I be looking in?
2. Where is my offer in terms of impulse versus destination?
3. Should I be looking in a shopping centre or a shopping strip? Or if I am a bulky goods candidate, in a bulky goods precinct or centre?
4. What do I look for in selecting the actual store?

AREA ANALYSIS

The secret of successful retailing is matching what you are selling to the customers coming past!

In broad terms, you should have some idea of who the customers are, and for a start, I would recommend you think in terms of three areas:

SOCIO ECONOMIC

You must have an idea as to whether you are targeting higher, medium, or lower socio economic groups. In Australia, we do NOT have the range of many countries, and what may be interpreted as lower socio economic still has a considerable spending ability.

An example may be in clothes.

- High socio economic (top 10% income earners)
- Medium socio economic (about 80% of Australians)
- Lower socio economic

- Designer labels mostly, a few common brands, and a very occasional visit to a mini major department store (Target, Big W etc)
- Occasional designer label, generally common brands, and quite a bit from the Target or Big W
- Common brands sometimes, the mini major department stores normally, and maybe the Op Shop (for the designer labels)

The point is very little is totally exclusive to any one group in Australia.

AGE GROUPS (INCLUDING FAMILY TYPES)

Selling school wear and trendy clothes for the young will be much better in young family areas than in retirement areas.

MULTICULTURALISM

Some products will sell better in a multicultural environment than high per cent Australian born. Certain food types (e.g. halal), vehicle types and many other products can be thought of in their appeal to multiculturalism.

If, for example, you decide your product is best suited to higher and medium socio economic groups, multiculturalism (specific food type) and young families, then you now have a plan to seek out

areas strongest in these psychographic groups.

The Census allows us to look at any area in Australia, and see how that area is compared to the national average. Log on to www.abs.gov.au and look at 'Census Data' and 'Quickstats' by suburb or postcode. This allows you to match your products to the customers living in the area.

IMPULSE VERSUS DESTINATION

Before selecting a site, you need to think in terms of how your product rates in terms of impulse versus destination. If we think of it in terms of a line, where do we sit on that line?



HIGH IMPULSE ITEMS

High impulse items are usually low cost, spontaneous purchases such as buying a carton of milk, a packet of cigarettes or a newspaper. You may make some decision where you go, but convenience normally drives this purchase.

When I look at the most high impulse business I can imagine, I think of a busker. In this case, they are very mobile, and are able to move to the best traffic flow at no cost, other than moving their instrument and case, and walking to the other side of the pavement or whatever.

As the cost of the goods you are purchasing increases, you move further along the line towards low impulse/high destination.

HIGH DESTINATION PURCHASES

If the goods you want are reasonably expensive, and you have already pre determined where you will buy it from, then that is a high destination purchase. If you want a specific type of car such as a BMW, then you will find and go to a BMW showroom, irrespective of how close it is.

GIVING A VALUE TO THIS IMPULSE VERSUS DESTINATION RATIO

* Busker or a beggar	100% impulse,	0 % destination
Eagles concert	1% impulse	99% destination
Buying petrol	80% impulse	20% destination
McDonald's	60% impulse	40% destination
High class restaurant	20% impulse	80% destination
Buying small electrical goods	70% impulse	30% destination
Buying a plasma screen	20% impulse	80% destination

Your business can normally be addressed as x per cent impulse; y per cent destination. I shall give some examples.*

As you can see, the more premeditated the purchase, the higher the probability you will look up where you want to go, not just spontaneously make a purchase from the first store you see.

SHOPPING CENTRES VERSUS STRIPS

Many businesses have a preference to go into big shopping centres (or malls), whilst others believe shopping strips are the go.

Shopping centres definitely have higher attraction power for the customers as the volume of traffic is normally higher (and therefore the rent is higher). In Australia we can gather the basic statistics on shopping centres from the Property Council of Australia, who produce books giving a page of details for nearly every shopping centre in Australia, unless the owner is not a member of the Property Council of Australia and does not wish to be included.

The Property Council data tells us the owner, manager and their contact details. It then tells us the GLAR – Gross Leasable Area Retail and MAT – Moving Annual

Turnover of the Centre. It also gives details on the major tenants and their area, number of car parks, who many of the specialty stores are, estimated pedestrian traffic and details on major refurbishments of the centre.

In the case of strips, there is no formal collection procedure or body that acts like the Property Council. We use a product called strip locator which is a method of comparing one strip to another as an indication of the strength of the strip.

THE COMPARISONS AS WE SEE IT ARE:

SHOPPING CENTRE

Traffic

Normally higher in a SC and measurable

Product mix (competitors)

Some governance in a Mall depending on the owners as they can limit the competition if they wish

Rents

Normally much higher with little long term protection

Long term renewals

Currently most SCs will give only a 5 year lease with no options, so you are at their mercy at time of re-leasing

STRIP SHOPPING

Traffic

Lower and unpredictable

Product mix (competitors)

No protection from your competition acting any way they wish.

Rents

Higher chance of a lower rental

Long term renewals

more likely to be able to negotiate longer tenure, including options for lease renewals

THE DECISION

The higher the impulse value of the goods you are selling, then the more importance to be in a highly visible, high traffic location. If you are a very strong destination product, then you can take a more back-street approach.

The rental you pay for a property is probably defined by the owner's view on whether the premise is considered high traffic flow and high visibility. In shopping centres, most stores have a different rental per square metre depending on the shopping centre management's view on these factors.



What you need to do is pay the appropriate rental for the appropriate store, and if you have a high destination type product, then you do not want to be paying top rental for the peak corner in the centre. If you are a high impulse product, then you do need high passing trade, or you will not sell your goods. No point being down at the back of the shopping centre paying cheap rental if you have a high impulse product such as phone cards, sandwiches or other food items.

An exclusive restaurant that has a great reputation, and word of mouth tells people how good it is, can be in a lower rental street or area, as the public will find it and come to it.

A quick serve restaurant such as McDonald's or KFC must be in a high impulse area, be it in a food court or on a main high exposure road.

FINDING THE APPROPRIATE SITES IN SHOPPING CENTRES

By now you should understand the concepts of finding the best area for your products. You also should now have considered if your goods or services are impulse versus destination, and where they fall on the line.

In my view there are different types

of customers coming into a shopping centre and you need to consider their needs. I believe the two ends of the spectrum are:

- The **quick shopper** – the person who comes into the centre to go to the supermarket and the fresh food area. This person is buying their weekly needs and will have little time or desire to wheel their goods around the centre browsing at other goods.
- The **retail therapy shopper** – the person who comes to the centre to browse for bargains and look in many stores over a couple of hours. Very common on weekends in the large shopping centres. May be the same person (from above) meeting friends for a coffee and a bit of retail therapy.

Some people are in between, but in a big centre may have pre-conceived ideas of where they are going.

Large shopping centres tend to have precincts and if your goods fall into a specific group, then it is often an advantage to be in the correct precinct. Examples of precincts we are starting to see are:

- Fast food – the food court of a shopping centre. This is the traditional area people gravitate to for lunch

- Fresh food – often a precinct where you have vegetables/green grocers, butcher, fishmonger, hot bread shops and others. Often it is adjoining the entrance to a supermarket
- Fashion – areas that attract the high end fashion names and many boutique fashion stores intermingle with the big names.
- Telcos – the telephone stores often gravitate together, normally as the smaller players have come to be near the original Telstra store
- General areas – these have many different tenants such as Dymocks, Autobarn, ABC shops, eyewear such as OPSM and many others. This normally contains all the stores where a separate precinct is not easily identifiable, plus being interlaced with clothing and fashion.
- The 'cheap' areas – in the back or lower section of many shopping centres, you find the areas where there is low traffic and the owners will take a low rent. Stores that need this low rent are often the \$2 shops, rug shops or stores selling to people as a 'bargain'. Often they need reasonable size but cannot afford much rent.

Being within a precinct can act as a



generator for your business. We look at many businesses as a friend or foe situation, and if for example you are a Quick serve restaurant ie KFC, Ali Baba or McDonalds, it is normally felt you need to be in the food court as this is where your customers come to. If you were a KFC out of the food court, with no other food options around you, you would not expect to do as well as being in the food court.

Look for precincts in the shopping centre and think how this will affect the business you are in. If possible seek stores that bring your type of customer into the area.

FINDING THE APPROPRIATE SITES IN STRIPS

Shopping strips vary in shape and size and the configuration depends on issues like parking and cross-streets. Most strips have an identifiable 'centre' and one of the best ways of seeing this is to look where the banks and supermarkets are located.

Strips are normally daytime activity centres; however there are strips that are night centres or food centres. Examples of these Australia would include Fitzroy Street, St Kilda (Melbourne), Oxford Street, Darlinghurst or Kings Cross in Sydney and

the Northbridge precinct in Perth.

The normal daytime strip is active due to people shopping and visiting during the day. Some of the main areas you are able to see are:

- banks – normally all located in a close area
- market and fresh food
- telecommunications – phone shops tend to congregate
- newsagents and chemists tend to be near the centre
- outer, lower rental stores normally nearer the ends
- cafés and restaurants may be grouped or scattered throughout. If there is a theatre, then this will be a prominent part of a restaurant/café precinct.

If you are going into a strip, we believe you need to consider the 10 nearest stores as an indication of the precinct you are within. If you have four cafes or restaurants, then this is the sign that you are a restaurant precinct, or similar if there are four or five fashion or shoes stores.

Look to what you are selling and see if there are precincts that will assist in being in the area.

SUMMARY

There is no magic formula to selecting a commercial site, rather a process you need to follow and a line of thinking to make sure the site you finally select meets all the criteria YOU feel is essential for your new business venture.

I cannot tell you to look at the left hand side compared to the right hand side of the road, or look for the busiest, most expensive store in a shopping centre compared to the \$2 discount store at the back.

What I can tell you is THINK about what your business is about and try and match as best you can the commercial sites being offered to your needs. There will always be the attraction of a better/ bigger site – at more rent, and you have to evaluate that to your REAL needs, not the sales pressure being placed on you by a leasing agent.

Select Well Grasshopper!

Peter Buckingham is the manager of Spectrum Analysis Australia Pty Ltd, a Melbourne based mapping, demographic and statistical consultancy. To contact Peter email peterb@spectrumanalysis.com.au or call on (03) 98826488.

