Decision-making criteria for the acquisition of retail properties

“Do physical and non-physical features of retail properties affect the building’s financial performance?”
“Do physical- and non-physical features of retail properties affect the building’s financial performance?”
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6. Conclusion

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Introduction
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Why research?

- Economic recession
- Troubling high percentage of vacancy among retail
- Lower take-up of square meter retail
- Low consumer confidence
- Online shopping (E-commerce)
- Location, location, location
Hypothesis

“Physical and non-physical features are of such importance to the net rental income of a retail property that it needs to be considered as a decision-making criteria in the acquisition strategy of an institutional real estate investor”
Research questions

• Which physical and non-physical building features, are to be distinguished to improve the set of decision-making criteria for the acquisition of retail real estate by institutional real estate investors?

• How should knowledge about physical retail property features be implemented into an asset acquisition strategy as decision-making criterion for institutional investors?
Research questions

- Which physical and non-physical building features, are to be distinguished to improve the set of decision-making criteria for the acquisition of retail real estate by institutional real estate investors?

- How should knowledge about physical retail property features be implemented into an asset acquisition strategy as decision-making criterion for institutional investors?
Theoretical Framework

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### Retail building features

<table>
<thead>
<tr>
<th>Regional market features</th>
<th>Location features</th>
<th>Building features</th>
<th>Tenant</th>
<th>Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacancy rate (locational)</td>
<td>Urbanisation classification (district; type of location)</td>
<td>Age (renovation or construction year)</td>
<td>Charisma of entrance outside</td>
<td>Type of tenant</td>
</tr>
<tr>
<td>Absorption Rate (take up of retail space per year)</td>
<td>Position of the shopping centre towards Randstad area</td>
<td>LFA/GFA ratio</td>
<td>Free standing</td>
<td>Income per household</td>
</tr>
<tr>
<td>Number of residents in the neighbourhood of the shopping centre</td>
<td>Number of floors</td>
<td>Energy label</td>
<td>Type</td>
<td></td>
</tr>
<tr>
<td>Location surrounding typology</td>
<td>Average LFA per floor</td>
<td>Spatial layout (floor plan + design)</td>
<td>Car owners</td>
<td></td>
</tr>
<tr>
<td>Distance to public transport</td>
<td>Mixed use of functions (Type of retailer)</td>
<td>Using typology</td>
<td>Unemployment</td>
<td></td>
</tr>
<tr>
<td>Distance to NS railway station</td>
<td>Type of façade material (Visibility and colour)</td>
<td>Flexibility (adjustability of available space)</td>
<td>Household composition</td>
<td></td>
</tr>
<tr>
<td>Number of parking places</td>
<td>Shape of buildings footprint</td>
<td>Material of pavements (colour)</td>
<td>Educational level</td>
<td></td>
</tr>
<tr>
<td>Parking norm</td>
<td>Shape of buildings facade</td>
<td>Window size (shop windows)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail competition / shops (mix of function)</td>
<td>Charisma of entrance inside</td>
<td>Single or multi-tenant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size of the shopping area</td>
<td>Cost of maintenance</td>
<td>Roof opening / Window</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of visitors (pedestrian flow)</td>
<td>Indoor / outdoor shopping centre</td>
<td>Available space retail (m2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Width of the street</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Methodology

“Do physical- and non-physical features of retail properties affect the building’s financial performance?”
Regression modelling

- Dependent: Net rental income
- Independent variables

Net Rental Income = B_0 + B_1 \text{Regional market features}_i + B_2 \text{Location features}_i + B_3 \text{Building features} + B_4 \text{Tenant} + B_5 \text{Consumer} + E_1

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NSI

- 48 shopping centres
- Located in the Netherlands
- Mainly shopping centres for daily shopping
- Sizes range from 1033 m² to 23553 m²

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Results (1)
Net rental income per m2 per quarter

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Charisma

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Results (2)

“Do physical- and non-physical features of retail properties affect the building’s financial performance?”
Retail building features

• Entrance charisma inside
• Pavement material
• Indoor or outdoor shopping
• Type of shopping centre
• Retail sales
• Gross domestic product
• Number of contracts
• Time*Time

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Implementation

- Good/reasonable charisma of the entrance at the inside
- Permeable pavement
- Indoor
- Inner-city shopping centre / indoor city quarter shopping centre (>50 shops)
- Number of contracts
### Implementation

<table>
<thead>
<tr>
<th>Sterpassage, Rijswijk</th>
<th>Hardonk, Deventer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The charisma of the entrance inside</strong></td>
<td></td>
</tr>
<tr>
<td>Reasonable</td>
<td>Mediocre</td>
</tr>
<tr>
<td><strong>Material of pavement</strong></td>
<td></td>
</tr>
<tr>
<td>Permeable pavement</td>
<td>Concrete</td>
</tr>
<tr>
<td><strong>Indoor or outdoor</strong></td>
<td></td>
</tr>
<tr>
<td>Indoor</td>
<td>Outdoor</td>
</tr>
<tr>
<td><strong>Type of shopping center</strong></td>
<td></td>
</tr>
<tr>
<td>Core shopping area L 200-400 shops</td>
<td>Neighbourhood shopping centre 5-25 shops</td>
</tr>
</tbody>
</table>

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Limitations

- Provinces Drenthe, Friesland and Groningen not included
- No A+ locations
- Availability of data
- Sustainability
- Comparable studies (rare)
- Subjectivity

“Do physical- and non-physical features of retail properties affect the building’s financial performance?”
Recommendation

• Repeat this research (extend time window)
• Repeat this research using other retail portfolio
• Extend the scope (Sustainability)
Conclusion

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Hypothesis

“Physical and non-physical features are of such importance to the net rental income of a retail property that it needs to be considered as a decision-making criterion in the acquisition strategy of an institutional real estate investor”
Conclusion

• Physical- and non-physical building features impact retail real estate
• Physical- and non-physical building influence the financial performance
“The biggest or the strongest retail will not be the ones to survive, but the trader who anticipate the best on the changing behaviour of the consumer” (Freely translated from Origin of Species by Charles Darwin)

Molenaar (2012)