

Retail real estate

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While this FAQ mainly focuses on residential real estate, it might be a good idea to sum up some of the main principles of retail commercial real estate.

The most important factor in retail investment properties is their location. The factors that decide the desirability of location are people traffic and the amount of time spent lingering in the area by pedestrians.

A major shopping centre provides a major draw card for small retail shops. Small shops placed in between major outlets such as Coles/Myer and Woolworths supermarkets take advantage of the thousands of people walking past their doors. Retail space that is not provided with such a bounty of human traffic is unsuitable for most retail operations, and usually only good for professional centres (accountants, law firms etc.) and niche retailers who are likely to attract a certain amount of business on the basis that they are the only operations in the area, good examples being astronomy shops, car accessory places and speciality retailers selling things like hydroponic systems or stationary.

For the rest of retailers, the flow of people past their window displays is massively important, and as I just said location between major 'attractions' such as supermarkets is certainly important. The important factor is how long these people spend in the area, so as to allow the retailer's nice window displays to attract attention. Shopping centres must be carefully designed or redesigned to prevent rapid flow.

This often means placing barriers in the path of shoppers so they won't just careen past. Such barriers include benches and gardens, but one very good concept is the coffee shop in the middle of the mall. People pressed along by the flow of the crowd end up suddenly surrounded by chairs and tables, with people enjoying a nice drink and a piece of cake. The coffee shop itself makes profit from people finding themselves inside and making an impulse buy, but so do adjacent retailers who benefit from the drifting gaze of the coffee drinkers whose eyes are drawn to their window displays. While sitting, meditating over their coffee people tend to remember birthdays and weddings and will be thinking of gifts, which of course has a very positive effect on nearby retailers. Modern architects appreciate that long straight halls do not suit this purpose and so shopping centres may be designed as something of a labyrinth to impede the rapid traffic flow.

Retail property investors need to know as much about architecture and environmental design as they need to know about marketing strategy and investment finance. The returns from rent can be much higher than residential investment but capital growth is not always as good.

Buy retail shops in areas of high concentration of retailers, while banks can be a drawcard for some they do not encourage relaxed window shopping and can be considered a parasite on retailers. Banks, accounting firms, other professional centres, building societies, travel agents and real estate agents feed off traffic generated by retail operations. If infestation is heavy shoppers may consider alternative, more interesting routes through the shopping centre or speed up in their meanderings.

Avoid areas where everyone is packing up to leave because a major shopping centre has been moved nearby. You want to follow the people traffic and so when a major drawcard moves in nearby you want to make sure you are on the 'people trail'. A distance of only a few tens of metres from the major traffic is often fatal to retailers, people tend to shuffle around with their gaze at the floor and so such a place will not be noticed by the crowds.

Obviously the size of the display is very important and hence the ideal design for a shop is to be wide and shallow, maximising display space and of course meaning shoppers must walk a longer distance to bypass this shop, increasing the temptation of impulse buyers who may be gazing at the display while walking past.