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THE KEY SUCCESS FACTORS OF INVESTING IN SHOPPING MALLS ON THE EXAMPLE OF POLISH COMMERCIAL REAL ESTATE MARKET

Summary: The author presents results of a research on shopping malls from historical, economic and client's perspectives. Her intention is to show criteria that should be considered by investors in shopping centers when selecting a specific object of investment. The author identifies success factors of shopping malls on the example of Polish shopping centers in five biggest Polish cities. For the purpose of analysis major Polish shopping centers with an established market position were chosen. The author presents the history of shopping malls, a literature overview on the topic of shopping centers, and criteria of choosing the best city to locate shopping center in. Next the author focuses on the specific objects of investment and their popularity in the city, looking for the determinants of success in the local commercial real estate market. The author uses monographic method to analyze shopping mall location, taking into consideration economic, marketing and retail factors. Data come from many sources, and are analyzed statistically, which shows implications and correlations between them. Furthermore, the author calculates seasonal factors on the frequency of visits in Polish shopping centers, showing when it is the best time to catch the attention of the widest group of clients.

Keywords: commercial real estate, shopping mall, shopping center, real estate market, investment criteria.

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*We used to build civilizations.
Now we build shopping malls.*

Bill Bryson

1. Introduction

Shopping center is a specific form of retail concentration, and a place of value creation for owners, tenants and clients. Retail objects that appeared since the beginning of existence of trade exchange were in different shapes and sizes: from

Agora and Forum Romanum through shopping arcades, opened and covered squares, shopping streets to closed and air-conditioned shopping malls.

The history of shopping centers goes back to year 1464, when on the order of the Sultan Mehmed the Conqueror the Grand Bazaar in Istanbul was built. It can be considered as precursor of modern shopping malls. This bazaar initially consisted of two halls (for antique dealers and jewelers), but was gradually enlarged and expanded. Now it consists of 64 covered streets with 22 entrance gates. On 30 acres there are over 4400 shops, 3000 firms, two mosques, four fountains, police, tourist information and many bars and cafes [Mikołajczyk 2012, p. 67, 68].

Even ages ago sellers knew the simple truth that gathered in one place they are more powerful in attracting customers. That way retail centers and retail streets begun to exist. The area immediately started to become the meeting place for local people. Restaurants, cafes, and after some time – places of cultural and leisure activity like clubs, theatres and cinemas started to locate itself near shopping centers [Henclewska 2005].

Commerce is one of the most important elements of the contemporary economy. It is also a valuable factor of urban development. In 2010 in Poland the share of trade in the creation of GDP was 17.1%, in gross value added – 19.5% and the number of staff exceeded 2.2 million people, which was 15.8% of general amount of people employed [Mikołajczyk 2012, p. 5].

The main aim of this paper is to present the results of the deskwork research, as well as literature studies on shopping malls. The studies have been carried out taking into account historical, economic and client's perspectives. The work contains identifying success factors of shopping malls on the example of Polish shopping centers in five biggest Polish cities. For the purpose of analysis there were chosen major Polish shopping centers with an established market position.

The author uses monographic method to conduct a detailed research and analysis on shopping mall location, taking into consideration economic, marketing and retail factors. The gathered data come from different sources, and were analyzed statistically, which showed implications and correlations between them. Furthermore, after regular collecting data on the Experian Footfall National Index,¹ the author uses it to calculate seasonal factors on the frequency of visits in Polish shopping centers, showing when it is the best time to catch the attention of the widest group of clients.

2. Literature overview

Polish scientific literature has a few sources, connected with the hereby topic. One of them is for example the work *Kreowanie wartości centrum handlowego*.

¹ The data are monthly published on the site <http://www.experianfootfall.pl/>, but unfortunately also regularly removed from there by the data administrators.

Perspektywa interesariuszy (Creating the worth of shopping mall. Stakeholder perspective) [Mikołajczyk 2012]. It contains an overview of the features which create the value of shopping malls for different groups of interest connected with shopping malls, for example customers and owners. It consists of case studies and market examination that show which Polish shopping malls are the most successful, and which are on the bitter end of the general classification. Another resource is *Handel w przestrzeni wielkomiejskiej. Przykład Łodzi (Commerce in the Big Urban Space on the Example of Łódź)* [Dzieciuchowicz 2013]. On basis of the case of Łódź the author illustrated how retail in big Polish cities works and which of retail points/branches are the most successful in Poland.

There are two very interesting books that can be helpful for real estate management. They are, with no doubt, very specific and interesting from commercial real estate managers' point of view. The first one is *Zarządzanie nieruchomościami handlowymi (Retail Property Management)* [Foryś (ed.) 2014], the other one – *Zarządzanie nieruchomościami komercyjnymi (Commercial Property Management)* [Jońska 2014].

The other resource that concerns financial side and effectiveness of investment in many various types of commercial real estate is *Finansowa ocena inwestowania w nieruchomości komercyjne (Financial Evaluation of Investing in Commercial Real Estate)* [Marcinek 2009]. The author focuses on financial aspects of investing and its evaluation in the context of commercial real estates. The author uses income criteria to define commercial real estate. This definition is very wide, as that way even flats that are to be sold or rented are commercial real estates. The work is very resourceful and concerns many general investment aspects. Unfortunately, it is still not enough to cover all of the theory and show specific aspects regarding commercial real estates, so there is still a lot of space for research and development in the theory of Polish commercial real estate market.

There was some other research on commercial real estate market and shopping malls in Poland, but main resources and inspirations can be found in foreign literature, what can be caused by the relatively young age of free market economy in Poland.

In 1991 Feinberg and Meoli wrote a short article *A Brief History of the Mall* that constituted review of the history and impacts that created the idea of shopping mall. At that time Poland was at the very beginning of creation of its own idea of retail.

One of the oldest works, *Shopping Center Image, Consideration and Choice: Anchor Store Contribution* [Finn, Louviere 1996], focused on the impact which specific anchor store and other physical characteristics of shopping centers have on the consumer's perceptions and opinions.

Khairul Anuar Mohd Ali [2013] examined a structural equation modelling approaches on factors of shopping mall attractiveness that influence consumer decision-making in choosing a shopping mall. The aim of this work was to identify

factors that could improve malls in customers' opinion and to show how the decision-making process works in terms of potential clients of shopping malls.

Yiu, Xu and Ng [2008] explored the relationship among shop size, tenant type and locations of shop in a shopping mall in their paper *Space Allocation and Tenant Placement at High-rise Shopping Malls*.

These works were indirectly related with guidance for investors who want to invest in shopping mall with success.

The article *Decision Making on Business Issues with Foresight Perspective; An Application of New Hybrid MCDM Model in Shopping Mall Locating* by Zolfani et al. [2013] is directly related with the investor's perspective. The work is about finding the best combination of criteria that will make a successful investment on commercial real estate market. The work is based on a complicated decision-making model (MCDM) and SWARA and WASPAS on the example of Teheran. This work shows an interesting, yet very complicated approach to decision-making process, based purely on mathematical model. The authors in the end stress that this model can work for one environment, and cannot be generalized for another one, because the criteria that were chosen to the model were based on literature studies.

In *Buyers-to-shoppers Ratio of Shopping Malls: A Probit Study in Hong Kong* [Yiu, Xu, Ng 2010] the authors show how commonly used in many surveys ratio is overestimated due to the fact that the statistics are based only on reviews, surveys and questionnaires, that are obviously voluntary and hard to verify, and also trouble-making in organization.

Whether it has to be a new place, or repurchase, the decision-making process raises many problems. The main assumption, withdrawn on the basis of the simple market law of supply and demand, is that the client is always right – when we will satisfy his needs he will come back to us. The research issue is what criteria should guide investors, investing in shopping centers when choosing a particular object of investment and what are the success factors of shopping malls.

3. Shopping mall location – city choice

The dynamic growth of retail space in Poland resulted in 9,420,000 m² total gross leasable area (GLA) located in over 400 objects.

Because most of developers locate their retail investments in the biggest agglomerations, as such investments are safer and characterized by higher liquidity, residents of the biggest Polish agglomerations are the best assessors of market success of shopping malls in Poland [Polska Rada Centrów Handlowych 2014, p. 3]. Their preferences best show if the investment was a great success, or a painful market defeat. It also means that (assuming the investor is wealthy enough) the safest and the most attractive option is to start shopping mall in a big Polish city.

To make the best choice many criteria should be considered. One of them would be the number of inhabitants. It significantly determines the market potential of one's

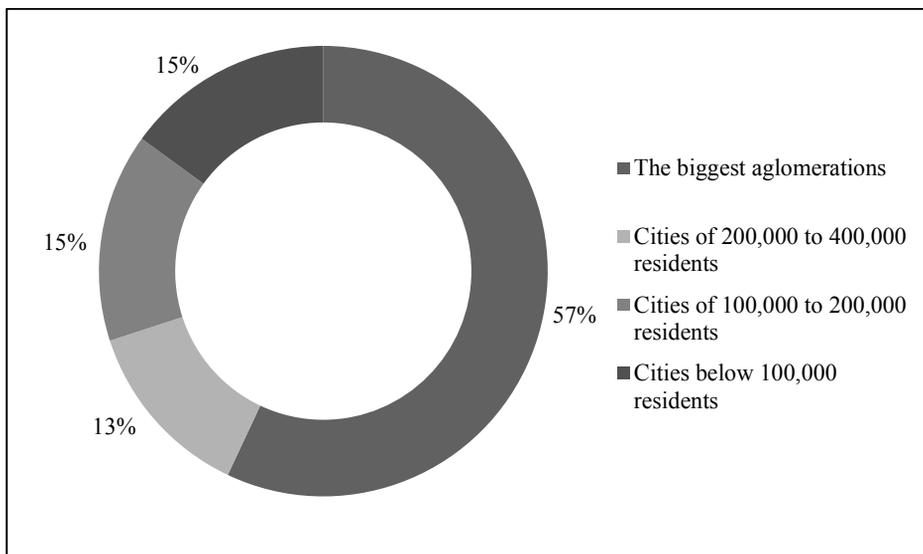


Figure 1. The structure of the resources of space in shopping centers in Poland at the end of June 2013

Source: own work based on [Polska Rada Centrów Handlowych 2014].

localization. In this article 11 of the biggest Polish cities would be considered in the decision-making process (Figure 2).

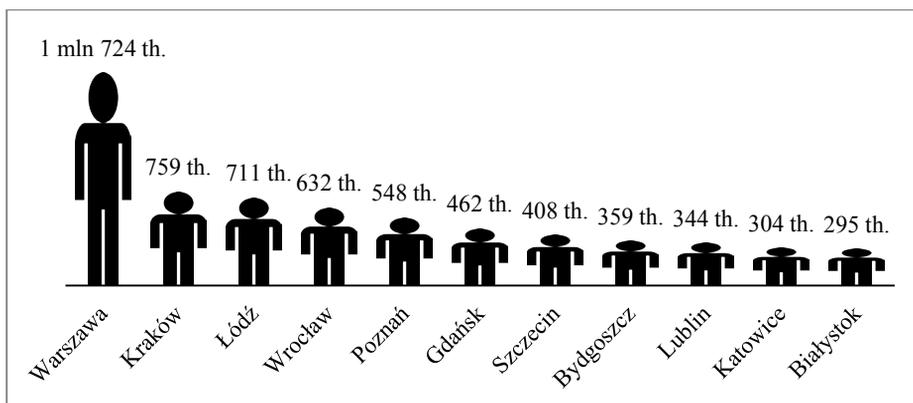


Figure 2. The biggest Polish cities in terms of population in 2014

Source: own work based on the data of Central Statistical Office of Poland [<http://stat.gov.pl>].

Another criterion is residents income. The potential buyer is someone different from window shopper. The difference is usually that potential buyer has the financial

resources needed to purchase products. Figure 3 shows the median earnings in the biggest Polish cities. The highest salaries are in Katowice, Warszawa, Gdańsk and Poznań.

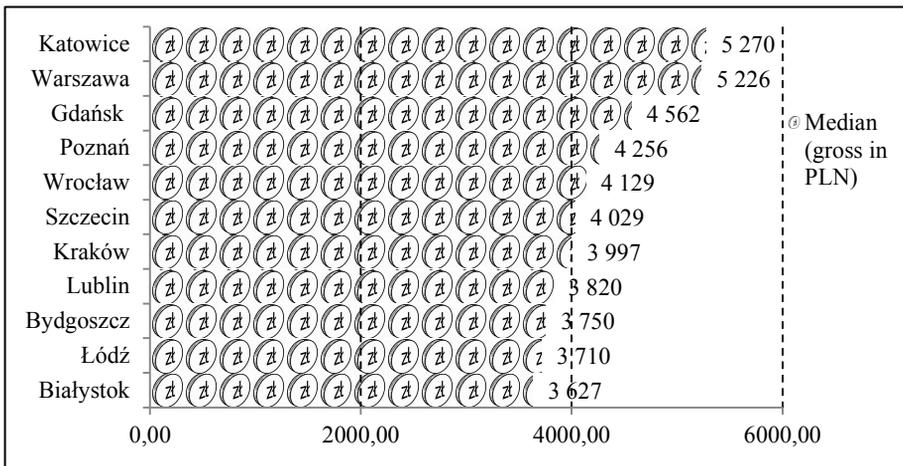


Figure 3. Remuneration in major Polish cities in 2013

Source: own work based on the data of Central Statistical Office of Poland [http://stat.gov.pl].

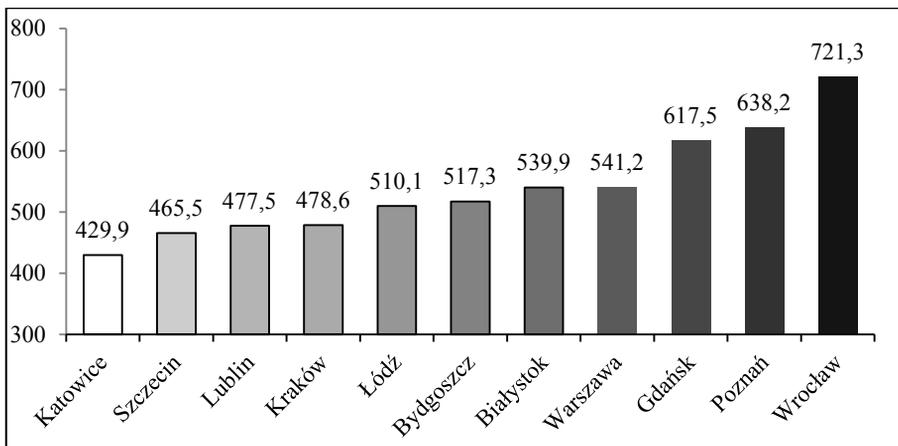


Figure 4. Saturation of commercial retail space (in m² per 1,000 inhabitants) in 2013

Source: own work based on the data from [Evigo 2013].

An important feature of the market, where will be located the shopping mall is the retail space saturation (Figure 4). The higher the saturation of retail space, the fewer customers will visit the gallery. From the cities mentioned before the biggest

amount of retail space per 1,000 inhabitants is in Poznań. Katowice and Kraków have the smaller retail space per 1,000 inhabitants.

Despite the high salaries in Poznań, the average value of the purchasing power of inhabitants per m² of open retail space is much below the average estimate for the eight largest agglomerations (due to the very high saturation of retail space). Kraków is above average, which speaks in its favor. Within examined cities Wrocław has the most saturated retail market.

The unemployment rate in Kraków, Katowice, Warszawa, Wrocław and Poznań is at the low level, which means that there is a wide potential group of people interested in purchases in shopping malls.

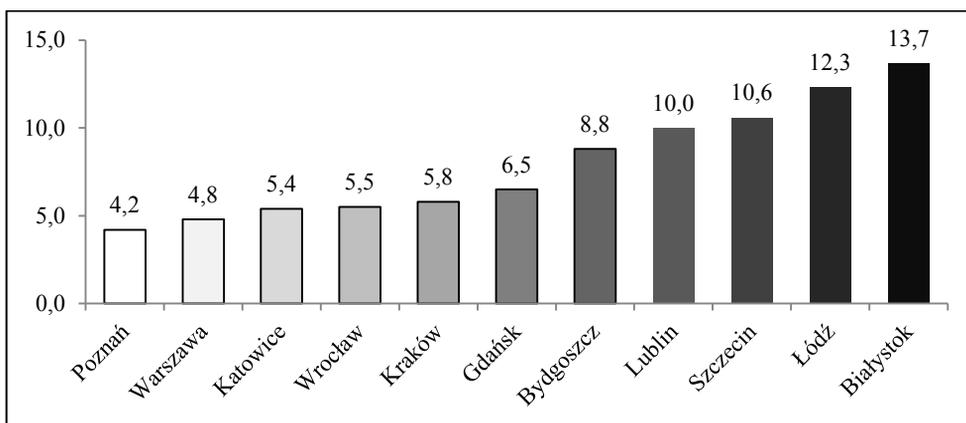


Figure 5. The unemployment rate in 2013

Source: own work based on the data of Central Statistical Office of Poland [<http://stat.gov.pl>].

The data show that Warszawa, Kraków, Poznań and Katowice are the most attractive cities to locate a shopping mall in. Additional motivation in choosing the location of Katowice for shopping mall is the fact that the city is the focal point of the metropolitan relationship “Metropolia Silesia” created in 2006. The metropolitan area includes: Bytom, Chorzów, Gliwice, Dąbrowa Górnicza, Jaworzno, Katowice, Mysłowice, Piekary Śląskie, Ruda Śląska, Siemianowice Śląskie, Sosnowiec, Świętochłowice, Tychy and Zabrze. The population the metropolis is over 2 million people, which obviously changes the way of looking at about 300 thousands of Katowice. There is an amazing transport network between the cities of “Metropolia Silesia”, which makes them almost one big city.

4. Shopping mall location – the object of investment

The easiest way to recognize the best criteria for locating shopping center is to look at existing shopping malls in Poland and try to measure their performance. Unfortunately, it is not easy to gain the data about shopping malls performance from their owners or tenants. During the research questionnaires were sent to 13 dominant shopping centers.² The message was short and contained a request to provide some data about the shopping mall. The motivation was clear – the data will be used only for scientific purposes. A half of 12 questionnaires ended up with a response from the management company. Every single answer was refusal of sending anything because of trading secrecy.

This only shows the importance of information and its value on the real estate market – gathering data, analyzing and drawing conclusions are the most important features when it comes to the real estate market decision-making process.

4.1. Warszawa

The total supply of modern retail space in the largest retail market in Poland was at the end of 2013 – 1.43 million m², located in 43 buildings.

Brands entering the Polish market usually open their first shops in Poland in Złote Tarasy, Galeria Mokotów or Arkadia. These objects are the most successful and largest shopping centres of Mazowieckie voivodship. The choices made by tenants are convergent with the consumer's choices. Customer interviews show that these shopping centers are the top three favorite for Warszawa residents. Galeria Mokotów was opened in 2000, Arkadia in 2004 and Złote Tarasy in 2007. All these centres have a long history and an established position in the market.

Arkadia catchment area is about 1.7 million people, Galeria Mokotów – 1.2 million people, Złote Tarasy – 1.9 million people (Figure 6). There is a noteworthy detail, distinguishing Złote Tarasy from all the above malls – of these three centers it is open every day an hour earlier, from 9:00 to 22:00 on Saturdays, to 21:00 on Sundays.

The most attractive investment can be considered Złote Tarasy. It is a shopping mall with an established position in the market (opened in 2007), and its undeniable advantage over the other shopping centers in Warszawa is the location. It is located in the center of Warszawa, next to the railway station Warszawa Centralna. It is a perfect place to build nationwide brand recognition – among the visitors are guests from all over Polish cities. The potential customers of Złote Tarasy are both residents of Warszawa and visitors who daily come to the capital for business, tourism, education and others.

² Arkadia, Złote Tarasy, Galeria Mokotów, Galeria Blue City, Plac Unii City Shopping, Atrium Reduta (Warszawa), Galeria Dominikańska, Arkady Wrocławskie, Renoma (Wrocław), Poznań Plaza, Poznań City Center, Stary Browar (Poznań), Galeria Krakowska (Kraków).

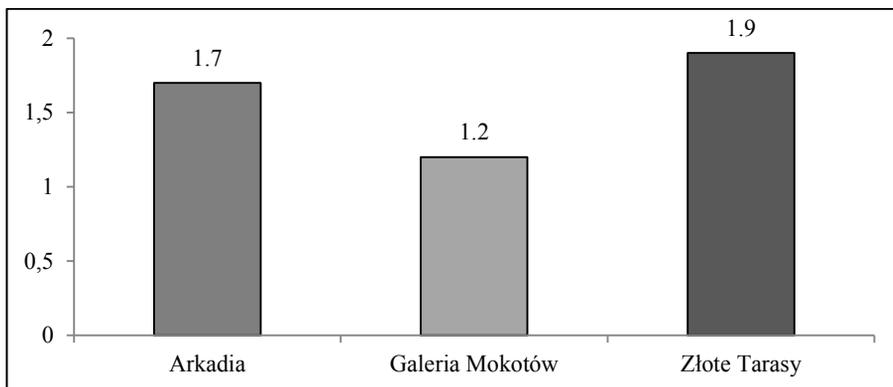


Figure 6. Catchment area (in million people)

Source: own work based on the data from the website of Unibail Rodamco.

Over 40 restaurants, which are located in Złote Tarasy, are the perfect excuse to visit the center. After a long journey people can eat there, which is a great alternative to eating at the station.

People who come to Warszawa very often aim at visiting a shop in the capital. It is impossible to fail to notice the Złote Tarasy building, being near Railway Station Warszawa Centralna. This unusual object arouses curiosity and attracts the attention of passers-by.

Shop which will open in Złote Tarasy has a chance to create a demand for the products of its brand inside as well as outside Warszawa. Satisfied customers will expect that a good brand will be launched also in their city. There are also regular buyers for which Złote Tarasy are one of the main points on the map of Warszawa.

4.2. Kraków

Crowds related to the tourist nature of Kraków discourage local residents from purchases on the shopping streets. Residents believe that the prices in these stores are artificially inflated, and their offer does not meet one's expectations. Kraków residents prefer shopping in shopping centers. Their favorite shopping centers are Galeria Krakowska, Galeria Kazimierz and Bonarka City Center.

The best investment in Kraków on the commercial real estate market is Galeria Krakowska. It is located in the center of Kraków, next to the main market square of the city. The catchment area of Galeria Krakowska is over 1.3 million people. Every year it attracts about 36 million visitors [ECE 2014]. It was opened in 2006.

The undeniable advantage of Galeria Krakowska is its location – as in the case of Złote Tarasy, next to the main railway station. It is a perfect place to build a nationwide brand recognition. Due to the tourist nature of the town, the number of

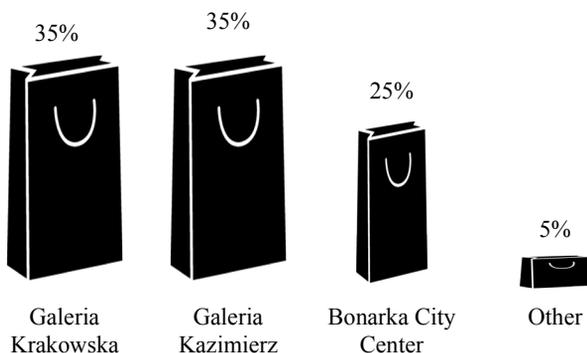


Figure 7. The favorite shopping centers of Kraków residents

Source: own work based on the data from [Colliers International 2013].

guests visiting from abroad can be expected. 14 restaurants, 12 cafes and confectioneries and as many as 10 stores with food of different categories located in the gallery is attraction for those seeking relaxation, good coffee and a meal.

4.3. Katowice

The inhabitants of Katowice have no problem with the choice of their favorite shopping mall. Over 47% of respondents, when asked about which they consider as the best shopping center, indicated the Silesia City Center. The second favorite mall was the Galeria Katowicka which lies next to the main railway station in Katowice. It was launched in 2013, so it is still building its market position.

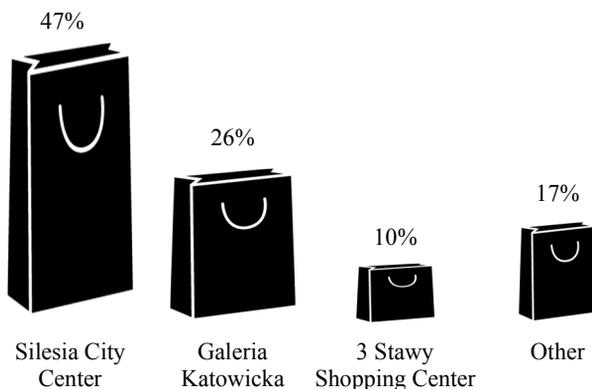


Figure 8. The favorite shopping centers of Katowice residents

Source: own work based on the data from [Colliers International 2013].

The most successful investment in shopping mall in Katowice and the whole Silesia district is right now Silesia City Center. Catchment Area of Silesia City Center is estimated at over four million people. It is a leading shopping center in Silesia that started working in 2005. Polish Association of Retail Tenants recognized the Silesia City Center No. 1 in terms of the selection of offers.

The name of the shopping center refers to the metropolis Silesia and thanks to that it shows a clear message – it is the shopping center “for Silesia,” not just “for Katowice.”

Thanks to the integrated transport as part of the Transport Union of the Upper Silesian Industrial District, Silesia City Center is perfectly communicated with Chorzów, Bytom, Świętochłowice, Ruda Śląska, Gliwice, Zabrze, Siemianowice Śląskie and Tarnowskie Góry.

4.4. Preliminary comments on the date of the opening of shopping mall

Based on the data regarding attendance at commercial facilities from the years 2007–2013 [Experian 2014] were estimated seasonal factors, which can be helpful in answering the question when most people visit Polish shopping centers. Simplifying, it can be concluded that October, November, December and also to a lesser extent February and March are the “hottest” months in terms of visiting commercial facilities in Poland (Figure 9).

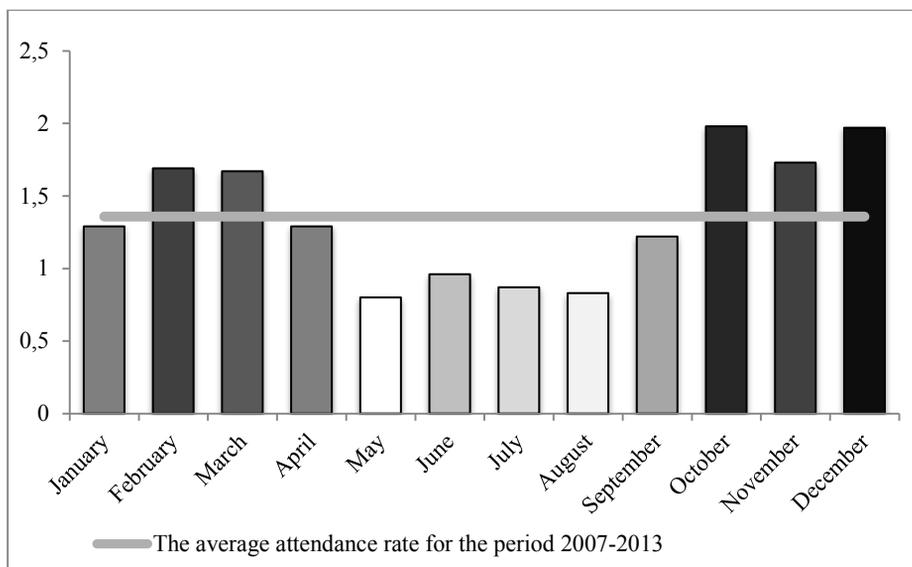


Figure 9. The average attendance rate in the years 2007–2013

Source: own work based on the data from *Experian FootFall* [Experian 2014].

The opening of a new investment could be more successful in the months, when most people visit shopping facilities in Poland, especially in the beginning of the month when people are getting their payments and are more willing to go shopping.

After analyzing specific object of investments (the biggest and most popular shopping malls, chosen from the best locations) it is possible to recognize the features which are possibly their success factors.

Złote Tarasy, Galeria Krakowska and Silesia City Center were compared to recognize their success factors.

The size of the city in which shopping mall is located – choices of most of the investors show that the most successful and safe at the same time is investing in the commercial real estate markets in the biggest cities. The larger the city in terms of population, the more potential customers of shopping malls.

Remuneration of the residents – the size of the city does not determine the success of shopping mall. It is important to understand that the target group of shopping malls are the people who not only visit the mall, but buy goods and services that are offered there.

Saturation of commercial retail space – in terms of locating shopping mall investor has to understand the importance of the competitive environment. The number of other malls and another retail points are crucial. The more shopping malls, the less customers will visit the specific one.

The unemployment rate – the average remuneration of working residents of the city is not enough to recognize the amount and structure of potential buyers. The information about unemployment rate shows if it is really a good decision to locate a shopping mall in the city with high average remuneration. The investor should not look for the city in which there are few very wealthy people, but rather lots of the people from middle class.

Wide catchment area – the location of the shopping mall is attractive to the wide group of people that can easily access the shopping mall. There are good communication possibilities. The shopping mall can be located either in the center of the city on the communication path, especially near to the railway station or far from the city center, but with wide comfortable opportunities to arrive there, even from remote places outside the city.

Well-chosen tenant mix – an appropriate mix of tenants is one of the most important features of a shopping center. Shopping malls are attracting people for example by restaurants – people are going to eat and by their way something more may attract their attention. This is the reason, why there are some shops or restaurants considered as key tenants. The location of key tenants in the shopping mall is very important, and should make people come a long way passing a lot of shops.

Original architecture of the place – when the object of investment looks eye-catching, people are going there more often, even because of their curiosity. This is the first step to become a customer of the shopping mall.

Appropriate date of opening – the date when the shopping center starts its functioning can be a key factor of its future market success. It is highly connected with the seasonal character of changes in attendance rate, as in some months of the year people have tendencies to be more eager to go shopping to shopping centers. That way it is possible to attract more people to the shopping center, and create its popularity.

The issue presented in the study is very complex. Every year in Poland more shopping center schemes suffer from lack of attendance, some of them are not interesting for tenants and investors even abandon their plans of creating them at all. There are examples of existing schemes that are emptier and emptier, there are first examples of closing such objects. Some people have their own vision of shopping mall, which they would like to open, based on their imaginary idea of the best shopping center. Without the research and facing numbers they will not be able to create successful retail object. Only the combination of above features can make a successful investment, and, what is more, these aspects are combined with each other, and they influence one another. If someone wants to create appropriate tenant-mix in their shopping mall, it needs to be considered a good investment first. If, on the other hand, even a well-planned investment somehow discourages tenants (for example by too high rents or delays in the construction process), it is unlikely to be a success.

The aim of this paper was achieved – the author presented results of a deskwork research and literature studies in shopping malls from historical, economic and clients' perspective. Criteria that should be considered by investors in shopping centers when selecting a specific object of investment were also identified. All of its goals were achieved. The other ideas for future studies could concentrate on estimating the strength of influence of particular factors on the market position of shopping malls.

There is still a lot to be said and done regarding the topic of commercial real estates, some other direction could be examining different examples of commercial real estates, like warehouses, offices, etc.

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CZYNNIKI SUKCESU INWESTYCJI W CENTRA HANDLOWE NA PRZYKŁADZIE POLSKIEGO RYNKU NIERUCHOMOŚCI KOMERCYJNYCH

Streszczenie: Celem pracy jest zaprezentowanie rezultatów badań na temat centrów handlowych z perspektywy historycznej, ekonomicznej oraz klienta. Intencją autorki było ukazanie kryteriów, które powinny zostać wzięte pod uwagę przez inwestujących w centra handlowe, podczas wyboru odpowiedniego obiektu inwestycji. Autor identyfikuje czynniki sukcesu centrów handlowych na przykładzie polskich centrów handlowych w pięciu największych miastach. Do celów analizy zostały wybrane największe centra handlowe o ugruntowanej pozycji na rynku. Autorka zwięźle prezentuje historię centrów handlowych, następnie dokonuje przeglądu przedmiotowej literatury, pokazuje również kryteria wyboru miast, w których najlepiej zainwestować. W kolejnej części skupia się na konkretnych obiektach inwestycyjnych i ich popularności wśród okolicznych mieszkańców, poszukując determinant sukcesu na lokalnym rynku nieruchomości handlowych. Autorka posługuje się metodą monograficzną, aby dokonać analizy lokalizacji centrum handlowego, biorąc pod uwagę czynniki ekonomiczne, marketingowe i handlowe. Zgromadzone dane pochodzą z wielu źródeł i są poddane analizie statystycznej, umożliwiającej ukazanie ich wzajemnego wpływu i relacji. Ponadto, autorka oszacowała wskaźniki sezonowości odwiedzania polskich centrów handlowych, ukazując kiedy najłatwiej zwrócić uwagę największego grona potencjalnych klientów.

Słowa kluczowe: nieruchomość komercyjna, centrum handlowe, galeria handlowa, rynek nieruchomości, kryteria inwestycyjne..