

TOP 4 CRITERIA TO ASSESS WHEN PURCHASING A SHOPPING CENTER

Undoubtedly, investing in commercial real estate demands a carefully executed, strategic plan, especially when the property in question is a multi-tenant shopping center.

A multi-tenant shopping center is a much different type of commercial property than a local business strip or a collection of businesses located in a master-planned area like a city's tourist district.

Typically, a shopping center's developers methodically choose a location that will attract a healthy mix of merchants and brands. The goal is to build a facility and lease the spaces out to quality brands that nurture a great retail atmosphere for consumers.

Although these investments can fetch a significant return, there's certainly no guarantee of success in the post-COVID era.

Thankfully, there's a relatively standard formula to determine whether or not a shopping center is a suitable choice for a commercial real estate investment.



Above all, the four main criteria when purchasing a shopping center include items like:

- Local demographics
- The volume of foot traffic
- Types of tenants already leasing spaces
- Types of renovations that need to be done after closing the deal

Here's a brief look at each one to give you a better grasp of what to expect when buying this type of multi-tenant commercial property.

1 – LOCAL DEMOGRAPHICS

From a retail brand's perspective, local demographics are the most critical statistics when deciding whether or not to lease a shopping center unit. Essentially, they have to be reasonably sure that their target consumers will actually visit the shopping center – and not just to window shop!

A high median income of a populace is one thing; the volume of consumer spending is quite another. The best malls in the U.S. don't only serve high-end buyers, they cater to a variety of consumers in one high-traffic facility.

Thus, purchasing a luxury shopping mall alone isn't necessarily the most profitable route if the demographics show no variety.

Millennial and Gen-X consumers don't seem to demonstrate similar shopping behaviors, so a shopping center's concept should ideally provide an inclusive, diverse experience.

Along those lines, other than demographics, the volume of foot traffic matters tremendously when buying a mall property.

2 – VOLUME OF FOOT TRAFFIC

There's a simple reason why the most successful shopping malls in the U.S. reside in major cities: foot traffic.



Now that the COVID-19 pandemic is coming to a close and capacity restrictions are no longer in place, shopping centers in the U.S. are coming back to life.

Interestingly, the most popular shopping centers nowadays focus on building a new shopping experience rather than a traditional one.

Today, consumers crave a more hands-on, visceral experience with products that they can actually see, touch, and sometimes smell.

Digital retailers may project sales based on clicks, but brick-and-mortar retailers measure success based on increased foot traffic.

The key is that the area in question needs to already have a high volume of foot traffic overall.

Certainly, it's possible to develop a shopping mall in a newly developed community, but the risk is anticipating population growth that never materializes into retail traffic.

3 – TYPES OF TENANTS ALREADY LEASING SPACES

Next, the types of tenants already leasing spaces in the shopping center are fair indications of the kind of consumers that will frequent the mall.

Generally, a shopping center needs to include plenty of space for food and beverage companies, including small businesses like local restaurants or coffee shops.

The idea is that delivering an entertaining, diverse retail experience relies on signing a variety of businesses to leases.

Without a doubt, analyzing current tenants is one of the most challenging tasks when buying a shopping center.

At a minimum, tenants should have a reliable reputation as an established brand or an upstart retailer with major growth potential in the local market.

4 – TYPES OF RENOVATIONS THAT NEED TO BE DONE AFTER CLOSING THE DEAL

The final part of the sound analysis is pricing the types of renovations that'll need to be done after closing the deal.

Some of the most common property defects are related to inadequate or improper maintenance since the property's inception, so getting the property inspected thoroughly is vital to determine its viability.

In the end, these top four criteria when purchasing a shopping center are a great place to begin the decision process.