



Developing Tenancy Mix Marketing Strategy

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Marketing is so basic that it cannot be considered a separate function....it is the whole business seen from the point of view of its final result, that is, from the customer's point of view.

In real estate we generally speak in terms of the three 'P's', - position, position and position. In marketing in leasing and most particularly in doing so for the processes of a tenancy mix, we speak about the four P's:

- **Product**
- **Place**
- **Promotion**
- **Price**

Let's look at these in a little more detail, and see how they all apply to our goal of leasing for a tenancy mix.

Product

First of all, we have to remember that what we're doing in this whole process is trying to look at things from the customer's point of view. So bearing that in mind, what product are we actually referring to?

All too often, agents make the mistake of thinking that what they're marketing is their own services, but while it's true that we have to sell ourselves, the product we're trying to 'sell' here, is the lease

occupancy of a building. To take it even a step further, it is the value which that building can provide to a tenant in the conduct of its business. The process of tenancy mix is an attraction to the leasing event. If a tenant or potential tenant can see a great location for occupancy in a mix with other tenants, then leasing becomes a lot easier.

The larger regional shopping centres are testimony to this fact. The well managed shopping centres are magnets for tenant interest and occupancy. Whilst the larger shopping centres have some of the highest rent levels in the country, they have achieved that and maintain it through great control of tenancy mix. Tenants want to be located in the shopping centres managed and controlled by good owners and managers.

Product

The product is the property. In this sense it includes not only the physical building, but also the benefits it is able to provide a business. So the first step when preparing a marketing strategy for tenancy mix and placement is to identify what users of this building are going to get for their rental dollars, such as:

- Customer availability
- Good visibility and promotion (which may permit a reduction in promotional costs for the business)
- Premises
- Tenant mix

It is important to identify the 'product' thoroughly, and to highlight as many of the potential benefits as you can in your marketing proposal for tenants wishing to occupy the premises. Most clients will be only too happy to agree with you that their building has a lot to offer, so it's important that you clarify this opportunity.

Place

Place is all about having the leasing product available where and when it is needed. In the case of your building there's not much you can do about moving it if it's located in an inappropriate position, but by doing your market research properly you can advise a landlord about what types of properties that have been leasing in the area and what tenants have been generally active.

It may be that a relatively simple refurbishment can convert an older property suffering from functional obsolescence into one that can be keenly sought after.

Promotion

In simple terms, how are you going to promote the property for lease and optimise the tenant mix as it starts to grow? You need a **promotional plan**.

Promotion is about informing your target market about the leasing product, and will usually include one or more of the following:

- On-site signage
- Newspaper advertising
- Professional brochure or flyer
- Internet listing
- Property website
- Property report (not always necessary, except for larger properties and longer term leasing projects)
- Personal canvassing (this can often be incorporated into your market research for other properties, and is sometimes a good icebreaker).
- Other agents (What? Have we gone mad?)
 - One of the most common forms of appointment in major commercial markets is the co-ordinating agency, where an "overriding" fee is paid to an agent for co-ordinating the leasing of a building through the network of agents operating in the marketplace.

- Special leasing functions. These can be very effective at times, but can also be costly to the landlord if they don't work. It's important to have a good look at whether other agents are using them, whether they're generating business for the landlord (or just leads for the agent), and whether the costs can be justified.
- You! Last but certainly not least, your promotional campaign includes you as the key person to help this person (or company) find a tenant to suit the space and tenancy mix for the property.

Where you direct your promotional efforts will depend on individual circumstances, and experience over time will help you determine which avenues you use in which situations. There's no right or wrong answer really, but you must be able to justify your recommendations. You won't always get it right, but if you base them on sound research, most landlords will support you all the way.

Price

Once again, solid market research at the start should enable you to state with a great degree of accuracy what rental this landlord is likely to receive. While most people naturally want as much as they can get, there's not much point trying to get \$850 per m² in rent when the market will only support \$750 per m².

This brings us to the point of rentals. There are three basic types of lease rental structures:

- net lease
- gross lease
- head lease

They are characterised as follows:

- **Net Lease**

Lessee pays a base rent plus an amount (usually a proportion based on the area of the building they occupy) to cover the actual building outgoings. These include the owner's insurance policies, rates, repairs and maintenance, etc. This process requires annual audits of actual out-

goings and reconciliation processes. The tenants get notified of the results and the adjustments to their obligations of payment.

- **Gross Lease**

Lessee pays one amount, which includes the rent and an allowance for estimated outgoings. The advantage is that the lessee can accurately budget for their accommodation costs. In this situation the landlord needs to carefully monitor outgoings to a budget. Many landlords prefer gross leases because it removes the problem of outgoings audits and accountability to the tenants.

- **Head Lease**

The lessee pays a base rent and assumes responsibility for all costs of operating the building, just as if they owned it. Leases of this type are longer leases. The government and some larger organisations would usually be the only ones to enter into this type of arrangement. In most cases this type of occupancy relates to a whole building and is typically only convenient when a tenant occupies a large area on that basis.

Market evidence?

When you are advising the landlord on any tenancy strategy and placement matter, you need to make sure that you are considering your market evidence from the same perspective, i.e., comparing like with like. Otherwise you will give a significantly distorted picture of the rent that can reasonably be expected. The tenancies that you compare in your market evidence must be considered on the basis of:

- Location
- Size of premises
- Quality of premises
- Proximity to other tenants
- Proximity of the tenant to 'customer trails and ant tracks'
- Include the relativity of any incentives provided in each comparable
- Special lease conditions such as relocation clauses or renovation clauses
- Type of rent paid (net or gross)

- Relative comparison of the outgoings paid between tenancies
- Demographics of the shopping centres involved
- Traffic numbers of the shopping centres involved
- Rent review provisions of the comparable leases
- Standard lease terms used in differing properties
- Know that any comparable rents were set on the basis of true market rent and not fixed rent escalations on another standard.

What are the others doing?

What are the most acceptable rent types in this market with the property that you have to lease? There is no point reinventing the lease process and attract (or try to) tenants with leases that are not common in the location. To answer this question you are going to need to identify what terms the other properties nearby are leased under. Tenants will know what is going on out there so you had better become fully aware of those things deployed and used in other properties.

Hard Lessons

One of the hardest lessons to learn here is how to handle unreasonable expectations of the client and or the tenant. You've just done a brilliant listing presentation highlighting your extensive knowledge of the market, your understanding of what this building has to offer, developed a short list of some potential tenant categories and presented a well-thought-out promotional strategy and tenant mix, only to find that the landlord wants nearly twice as much as the market's going to give him.

The only way you can battle this problem is with facts from the market. Taking the time to obtain them will save time later and will make the leasing process much easier for you.

Most serious commercial landlords will have a pretty thorough understanding of their marketplace, and you'll often find them more receptive to a well presented, professional, logical argument than sometimes happens in the other market segments.

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