

# **Determining Factors in Enhancing a Shopping Center's Value Upon Renovation**

**K CHAN, HKSAR, China**

**Key words:** Renovation, determining factor, shopping center, users' satisfaction, retail and rental value

## **Summary**

It is crucial to maximize a shopping center's retail and rental value; especially in a prominent Central Business District (CBD). Major alteration, addition and renovation works can help increase the pedestrian flow, attract more consumption by potential customers, and improve users' satisfaction through the upgraded facilities; and thus increase the shopping center's image, turnover, as well as yield. In this research, the determining factors of modifying and upgrading a shopping center will be explored by means of detailed feasibility study and post occupation analysis; so as to assess the net gain in tangible, non-tangible and financial aspects, with a Hong Kong case study. Questionnaire will be dispatched to the major stakeholders like shop tenants, passer-bys, potential consumers, property management, landlord; to solicit their respective views of pre and post upgrading works. These findings will be further analyzed to establish the determining factors in enhancing a shopping center's value upon renovation; so as to shade some light for the retail industry of Hong Kong.

# Determining Factors in Enhancing a Shopping Center's Value Upon Renovation

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## Background and Literature Review

Renovation of shopping center is the most direct method to increase the rental income, especially for aged buildings. Kyle (1998) contends that vacant stores cannot be leased unless prospective tenants are attracted to the premises. Sufficient advertising and lighted signage are maintained to refresh potential customers' memories of any shopping center (Burke, 2009; Haque and Rahman, 2009). Preventive maintenance program and routine inspection of the building, ground and equipment are especially important for retail properties because of the heavy use they endure. Patrol and inspection of equipments are crucial during renovation works, to avoid any damages of existing equipment. The Urban Land Institute (ULI, 1996) introduces a standard manual of accounting for shopping center operations, which demands a standardized system for reporting income and expenses in shopping center management. This method allows for industrial cost comparisons; whilst assessing the financial contribution rendered by renovation in a financial report (Mirrielees, 2006).

Means (1996) opines that the mission, goals and objectives of renovation must be determined through a feasibility study, including assessment of the market's demands, target on age group, financial status and space available. Rondeau, Brown and Lapides (1995) states that all successful projects start off with a definite plan so that all parties understand their responsibilities and performance requirements to ensure the renovation works are executed in fluency with lesser accidents and impacts to the landlord's corporate image. Kyle (1998) also points out a critical problem relating to risk management and insurance; which includes:

- Identify and measure frequency of risk
- Avoiding the risk to reduce loss of cause
- Establish a safety program, emergency and loss reduction plan to control risk
- Funding for balance or resist the loss of risk

- Transferring the risk
- To monitor and fitness of strategies implementation for risk management

The property manager begins the process by surveying the physical structure, equipment and tasks performed during renovation; with records from staff, customers, contractors, and government department to analyze/resolve any possible risk problems like fire, security, flooding, materials ingress/egress/over stack etc. Means (1996) further advocates that the illumination of shopping center should be maintained at recommended levels to conserve eyesight, improve morale, increase safety, maintain reasonable housekeeping, decrease fatigue, reduce headaches, and enhance production. Although the property manager may have tried the best to minimize risks, an emergency fund is expected to ensure the renovation program can still be executed even the insurance claims could not cover entirely the loss of material/equipment damage, third party liabilities, natural disasters etc.

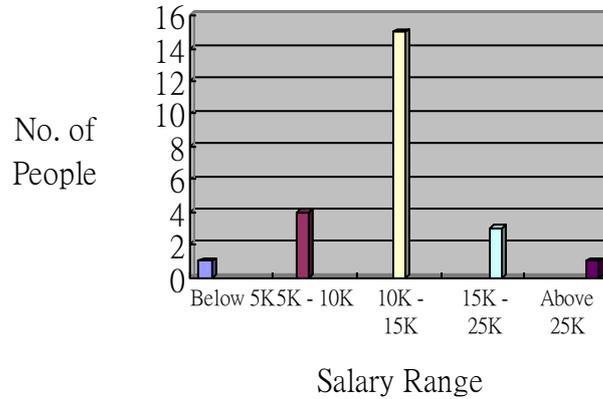
### **Research Methodology**

Quantitative approach with preset questionnaire will be dispatched to major stakeholders like shop tenants, passer-bys, potential consumers, property management, landlord; to solicit their respective views of pre/post upgrading works for a shopping center in a CBD of Hong Kong. These findings will be further analyzed to establish the determining factors in enhancing a shopping center's value upon renovation.

### **Findings and analysis**

The collected data from target respondents (tenants and potential customers) are analyzed and tabulated as shown below. Figure 1 reveals that 62.5% respondents earn HK\$10000 to 15000 p.m., thus the property manager can specially design the shopping centre to suit this particular sector.

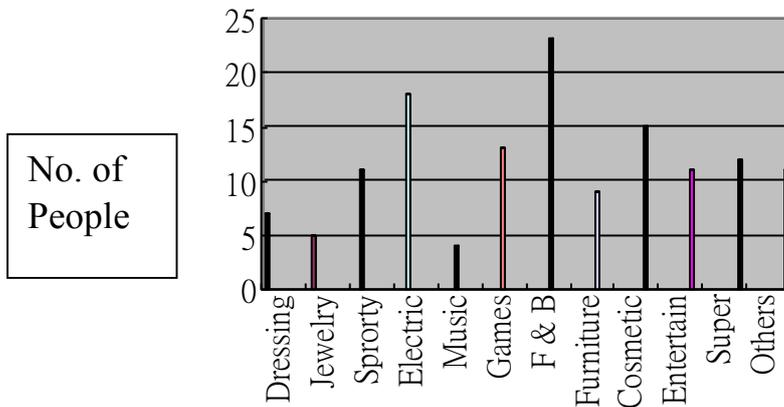
### Consumer Salary



**Figure 1 Salary range of potential customers**

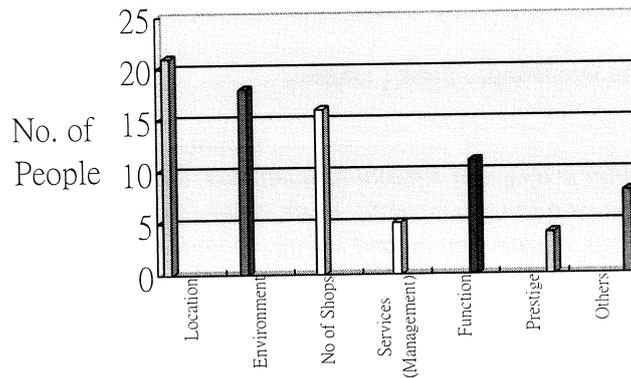
Figure 2 demonstrates the highest three options i.e. Food and Beverage (92%), Electronic Appliances (72%) and Cosmetics (60%). From these data, the property manager will work towards designing and attracting a new tenant mix for the modified shopping center.

### Consumer Favor



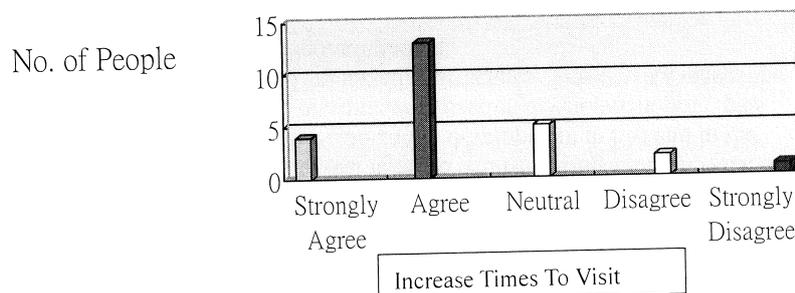
**Figure 2 Potential customers' favor**

Regarding attractive factors for a shopping center, Figure 3 shows that 84% respondents consider the location, 72% consider the environment and 64% consider the number of shops. It demonstrates that the renovation design/alteration should focus on these aspects to attract more potential customers of this income sector, more shops in reduced size, better access design to public transport/roads for easier accessibility by customers, and better environment (e.g. interior design, air quality, internal circulation, barrier free access); so that higher rental return can be resulted after the renovation.



**Figure 3 Attractive factors of the shopping center**

Figure 4 indicates that 52% respondents opine “Agree” that the new renovation attracts them to pay more visits to the shopping center, while 20% consider “Neutral”, and 16% reckon “Strongly Agree”. It may be concluded that 68% respondents (simple majority) consider that the renovation works can increase customer flow rate and spending; thus increase rental income.



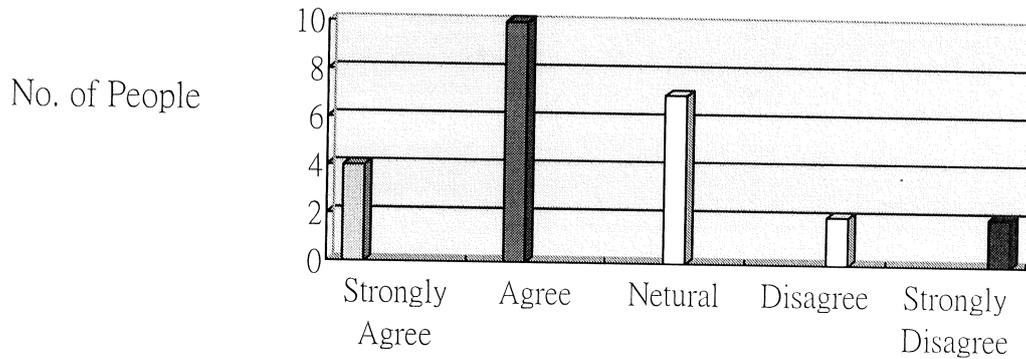
**Figure 4 Renovation effect to customers' visit**

Figure 5 shows that 40% respondents opine “Agree” in determining whether to visit

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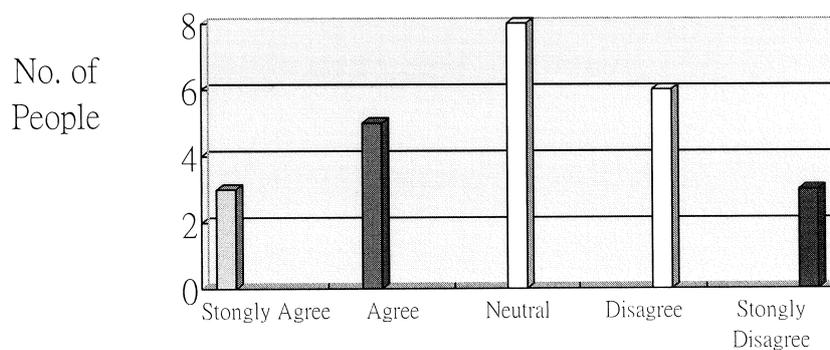
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 Chan K (Hong Kong SAR, China)

the shopping center based on its outlook, while 28% consider “Neutral”, and 16% reckon “Strongly Agree”. Altogether, it may be concluded that 56% (simple majority) consider that the center’s future outlook is crucial, which affects the extent of customer flow and future rental income.



**Figure 5 Effect of shopping center outlook**

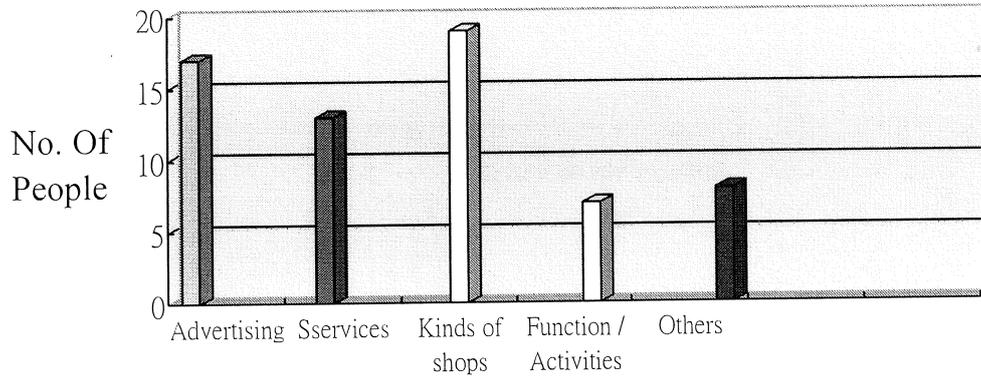
Figure 6 reveals that 32% respondents consider “Neutral” to increase spending when the center has been renovatd, while 24% opine “Agree”, and 20% reckon “Strongly Agree”. It may be concluded that 44% opine to spend more after renovation works are completed; whilst it may not be the only significant factor.



**Figure 6 Renovation effect toward customers’ spending**

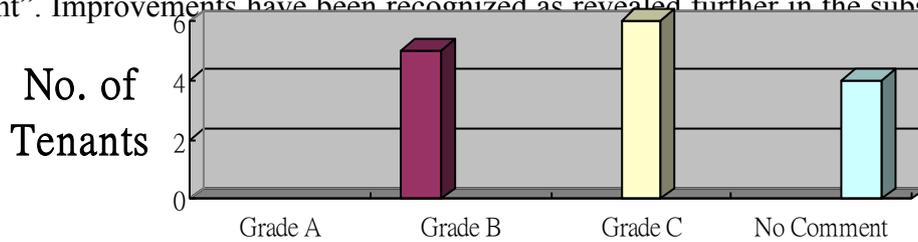
Figure 7 reveals the factors in making the center more popular/attractive. 76% respondents consider various “Kinds of shops” are crucial, while 68% accept “Advertisement”, and 52% reckon the importance of “Services” offered by the center

to enhance its popularity/attractiveness. The questionnaire allows respondents to select more than one factor.



**Figure 7 Factors for making center more popular/attractive**

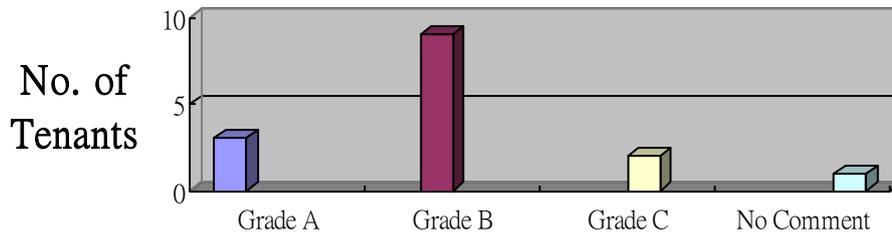
Figure 8 shows that 40% respondents/tenants consider the shopping center as “Grade C” before renovation, while 33% opine as “Grade B”, and 27% reckon “No comment”. Improvements have been recognized as revealed further in the subsequent figure.



**Figure 8 Grading before renovation**

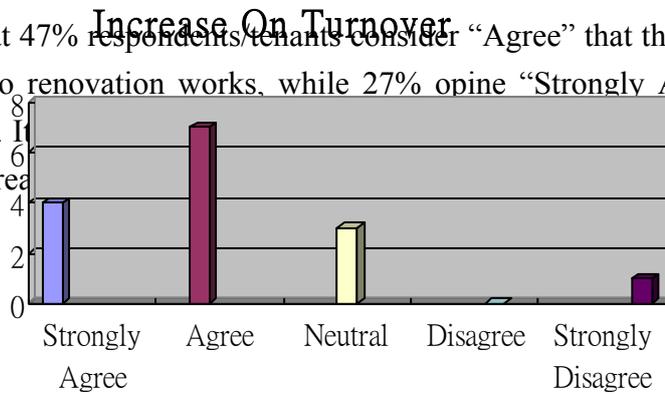
Figure 9 demonstrates that 60% respondents/tenants consider the shopping center as “Grade B” after renovation, while 20% opine as “Grade A”, and 13% reckon as “Grade C”. It may be concluded that 80% (majority) consider a significant improvement has been achieved.

### Grading After Renovation



**Figure 9 Grading after renovation**

Figure 10 indicates that 47% respondents/tenants consider “Agree” that their turnover has increased owing to renovation works, while 27% opine “Strongly Agree”, and 20% reckon “Neutral”. It works have increased.

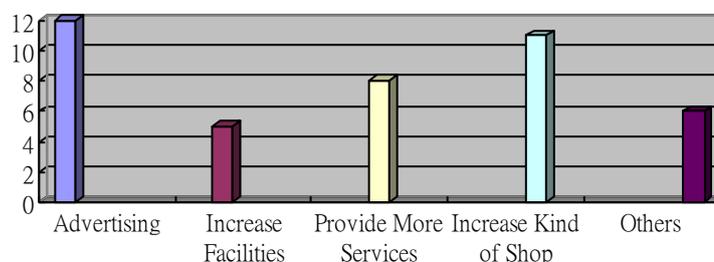


**Figure 10 Impact of renovation to business/turnover**

Figure 11 points out that 80% respondents/tenants agree more “Advertisement” should be launched by the property management as further promotion, while 73% opine to increase different “Kinds of shop”, and 53% reckon that the property management should “Provide more services” for to increase customer flow.

## Improve The Shopping Centre

No. of  
Tenants



**Figure 11 Factors to improve the shopping center**

As shown in Table 1, the average rental change/increase is HK\$42.4 (+75.1%) per s.f. after renovation works, and the total increase is about HK\$4,240,000 per month.

| Some units | Size in s.f. | Rental HK\$ p.m. before renovation | Rental HK\$ p.m. after renovation | Rental change HK\$ per s.f. |
|------------|--------------|------------------------------------|-----------------------------------|-----------------------------|
| G8-G9&B2   | 4,098        | 270,000.00                         | 342,300.00                        | +17.6 (+26.7%)              |
| G11        | 598          | 68,000.00                          | --                                | +61.3 (+53.9%)              |
|            | 844          | --                                 | 147,700.00                        |                             |
| 101        | 1,370        | 38,000.00                          | --                                | +24.7 (+89.2%)              |
|            | 1,337        | --                                 | 70,000.00                         |                             |
| 201-02     | 2,300        | 45,900.00                          | --                                | +66.4 (+332.7%)             |
|            | 2,967        | --                                 | 256,300.00                        |                             |

**Table 1 Rental change before and after renovation**

Table 2 reveals the key changes such as capital value, customer flow rate and rental value of the subject KLM shopping center before and after renovation

| Key element        | Before renovation | After renovation | Change in % |
|--------------------|-------------------|------------------|-------------|
| Capital value      | HK\$12 billion    | HK\$27 billion   | + 125%      |
| Customer flow rate | 60 persons/hour   | 120 persons/hour | + 100%      |
| Rental value       | HK\$50.4 p.s.f.   | HK\$88.3 p.s.f.  | + 75.2%     |

**Table 2 Key changes before and after renovation**

## Conclusion

This research demonstrates that the renovation works should stress on providing more food & beverage facilities, outlets for electrical/electronic products and cosmetics; with a variety of different shops. The renovation design/alteration should focus on providing more shops in reduced size, better access design to public transport/roads for easier accessibility by customers, and better environment (e.g. interior design, air quality, internal circulation, barrier free access); so that higher rental return can be resulted after the renovation. Internal passageway is provided to let customers travel from one street to another street; to create “coincidental shopping effect” and “temporary stay” from raining/hot weather in summer. 68% customers reckon that they will visit the center more often than before owing to such renovation. The majority respondents consider that the center’s future outlook is crucial, which affects the extent of customer flow and future rental income; and opine that various “Kinds of shops”, “Advertisement”, and “Services” offered by the center are crucial to enhance its popularity/attractiveness. The majority tenants/respondents consider that a significant improvement of the subject shopping center has been achieved after renovation i.e. change from below Grade B level to above Grade B level (80% respondents agree) after renovation; and have helped increase their business/turnover. Finally, there have been key changes such as capital value (+125%), customer flow rate (+100%) and rental value (+75.2%) of the subject KLM shopping center before and after renovation.

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