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MANAGEMENT OF COMMERCIAL REAL ESTATE AND ANALYSIS OF MAIN MANAGEMENT PROBLEMS OF COMMERCIAL REAL ESTATE: THE EXAMPLE OF SHOPPING MALL INVESTMENTS IN ANKARA PROVINCE

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❑ **The changing nature of real estate investments**

- The growing share of the construction and real estate sectors in the economy: Between 14-16% of the GDP
- Urban development and transformation activities
- Changing aims of real estate acquisition: utilization (durable consumption) or investment?
- Rapid increase of commercial real estate investments, development of single purpose and mixed projects
- Increase in the number of retail and wholesale commercial enterprises and retail trade areas as employment and socialization places
- Shopping malls: organizations designed for the transformation of capital into money in the consumer society (Gottdiener 2005).

Commercial Real Estate:

- Office buildings
- Services industry and professional centers
- Retail stores
- Bazaars where wholesale sales are made
- **Shopping Malls**→
- Hotels
- Motels

Shopping Mall:

- Having a structure or a group of structures,
- With a sales area of at least **5,000 m²**,
- Centers with a big store (≥ 400 m²) and **10** workplaces or places with **30** workplaces in total

Real estate allocated to **commerce**

The requirements set forth in the Regulation on Shopping Malls (SMs): **containing common areas** and having a **centralized management**.



Single property or a group of buildings or a property unit within a building complex?

Changing shopping culture and new investments:

- ❑ The business life consisted of bazaars and business centers until the 1990s, and after that date it quickly integrated with SM investments.
- ❑ Despite the increase of shopping center investments in 2000s, the development in SM management is inadequate,
- ❑ SMs can be classified based on different criteria such as the characteristics of the target markets, tenant structures, transportation distance and duration
- ❑ Two classifications adopted in the SM sector:
 1. Real Estate Investment Standards (REIS) (9 classes)
 2. Classification of the International Council of Shopping Centers (ICSC) based on indoor space size (2 main classes).

CLASSIFICATION OF SMs

SM Classification Criteria according to ICSC

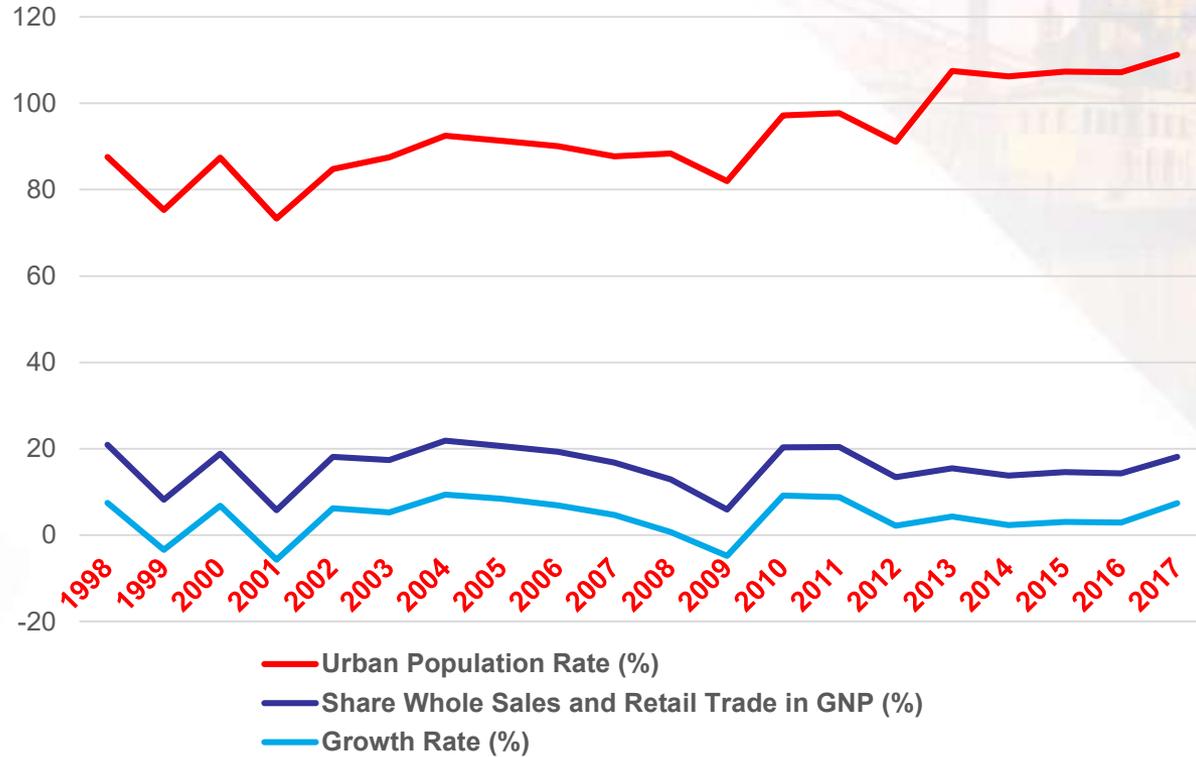
SM Type	Land Area (Ha)	Rentable Area (m ²)	Anchor Store Size Ratio (%)	Number of Anchor Stores
Local	1 – 6	3,000 – 15,000	30 – 50	1 ≤
Regional	4 – 16	10,000 – 35,000	40 – 60	2 ≤
Regional	16 – 40	40,000 – 80,000	50 – 70	2 ≤
Super Regional	25 – 50	80.000 +	50 – 70	3 ≤
Themed	2 – 8	8,000 – 25,000	-	-
Style	4 – 16	15,000 – 50,000	0 – 50	0 – 2
Outlet	4 – 20	4,600 – 37,000	-	-
Power Center	10 – 80	23,000 – 55,000	75 – 90	3 ≤

SM Classification Criteria according to AMPD (TR)

Format	Project Type	Total Rentable Area (m ²)
Traditional	Very Large	80,000 m ² and higher
	Large	40,000 – 79,999 m ²
	Medium	20,000 – 39,999 m ²
	Small Convenience Oriented	5,000 – 19,999 m ²
Specialized	Retail Park	
	Large	20,000 m ² and higher
	Medium	10,000 – 19,999 m ²
	Small	5,000 – 9,999 m ²
Outlet		5,000 m ² and higher
Themed (Entertainment Focused)		5,000 m ² and higher
Center (Non-Entertainment Focused)		5,000 m ² and higher

- ❑ The rapid increase in population and per capita income and the change in SM perception lead to an increase in investor demand: shopping and socializing area
- ❑ The growth rate of wholesale and retail trade is higher than the general economic growth rate and growth is positive in crisis years, too.

Years	Mid-Year Population (1,000)	GNP Per Capita (\$)	Growth Rate (%)	Share Whole Sales and Retail Trade in GNP (%)	Urban Population Rate (%)
1998	62,464	4,442	7.5	13.4	66.7
1999	63,364	4,003	-3.4	11.6	67.1
2000	64,269	4,229	6.8	12.1	68.5
2001	65,166	3,084	-5.7	11.5	67.5
2002	66,003	3,581	6.2	11.9	66.7
2003	66,795	4,698	5.3	12.1	70.1
2004	67,599	5,961	9.4	12.5	70.6
2005	68,435	7,304	8.4	12.2	70.7
2006	69,295	7,906	6.9	12.4	70.8
2007	70,158	9,656	4.7	12.1	70.9
2008	71,052	10,931	0.7	12.2	75.5
2009	72,039	8,980	-4.8	10.7	76.1
2010	73,142	10,560	9.2	11.1	76.9
2011	74,224	11,205	8.8	11.6	77.3
2012	75,176	11,588	2.2	11.2	77.7
2013	76,148	12,480	4.3	11.2	92.0
2014	77,182	12,112	2.3	11.5	92.4
2015	78,218	11,019	3.1	11.5	92.7
2016	79,278	10,883	2.9	11.4	92.9
2017	80,313	10,597	7.4	10.7	93.1



SM Assets in Turkey (2018)

: Existing: 395 units

End of year 2018: 410 units
(Expected)

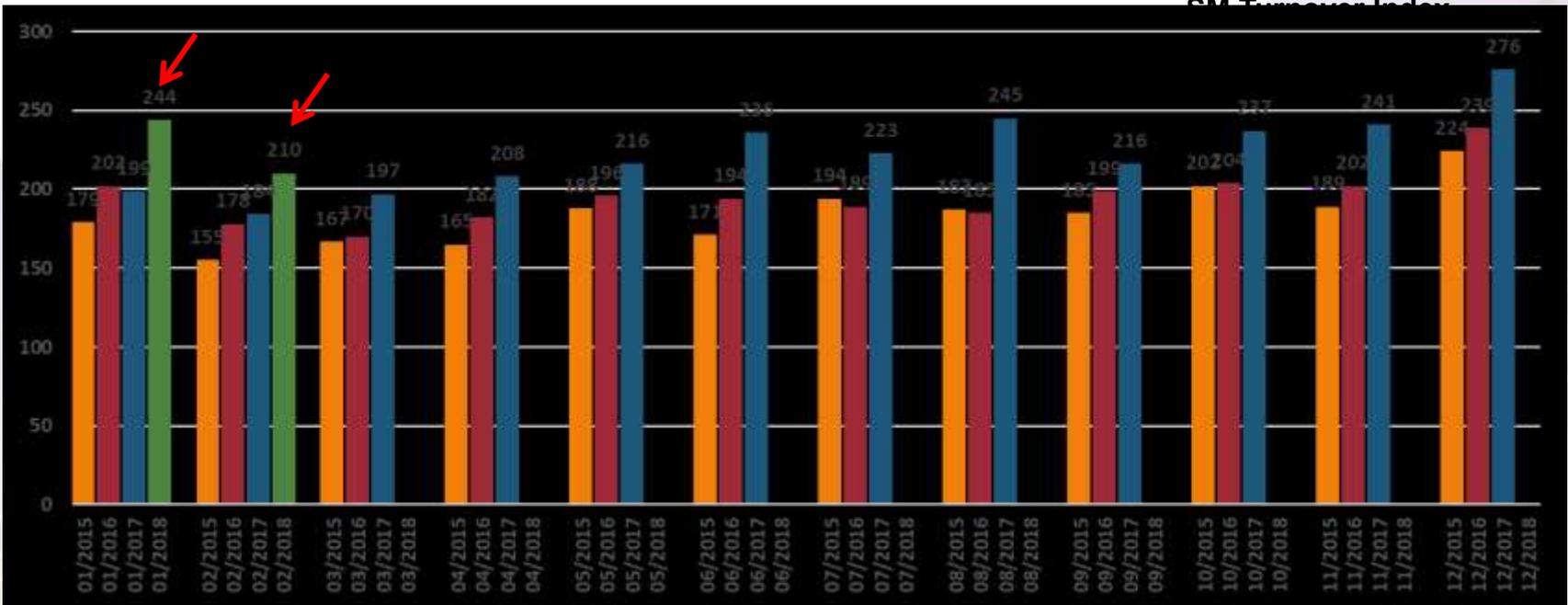
Provincial Breakdown of Shopping Centers in Turkey (2017)

Province	Units	Province	Units	Province	Units	Province	Units
Adana	3	Diyarbakir	6	Karaman	1	Osmaniye	1
Afyonkarahisar	2	Edirne	3	Kastamonu	1	Sakarya	4
Aksaray	2	Elazig	1	Kayseri	7	Samsun	7
Ankara	37	Erzincan	2	Kirikkale	3	Siirt	1
Antalya	16	Erzurum	4	Kirklareli	1	Sanliurfa	2
Aydin	10	Eskisehir	4	Kocaeli	12	Tekirdag	5
Balikesir	9	Gaziantep	4	Konya	8	Tokat	1
Batman	1	Giresun	2	Kutahya	3	Trabzon	3
Bilecik	1	Hatay	4	Malatya	2	Uzak	2
Bitlis	1	Isparta	1	Manisa	6	Yalova	1
Bolu	3	Istanbul	120	Mardin	2	Zonguldak	3
Bursa	16	Izmir	21	Mersin	6	Van	2
Canakkale	5	Kahramanmaras	1	Mugla	12		
Denizli	4	Karabuk	3	Nevsehir	1	TOTAL	383

Source: AYD 2018; TURKSTAT (2018)

Increasing Attractiveness of SM Investments and New Investments:

- ❑ In shopping malls, the investment cost excluding land is \$800 – 1,400/m², and the cash flow and sustainability of real estate as architectural and physical structure are critical decision criteria.
- ❑ This cost is at least doubled when the land cost and the pre-opening operating capital requirements are added.
- ❑ Analysis of shopping mall investment and operating expenses, cash flow, rent and visitor indices: Investor appetite is still very high.
- ❑ The rent multiplier excluding failed shopping malls is between 82 and 135, with an average of 114.
- ❑ The return period is relatively high – between 7 and 12 years.



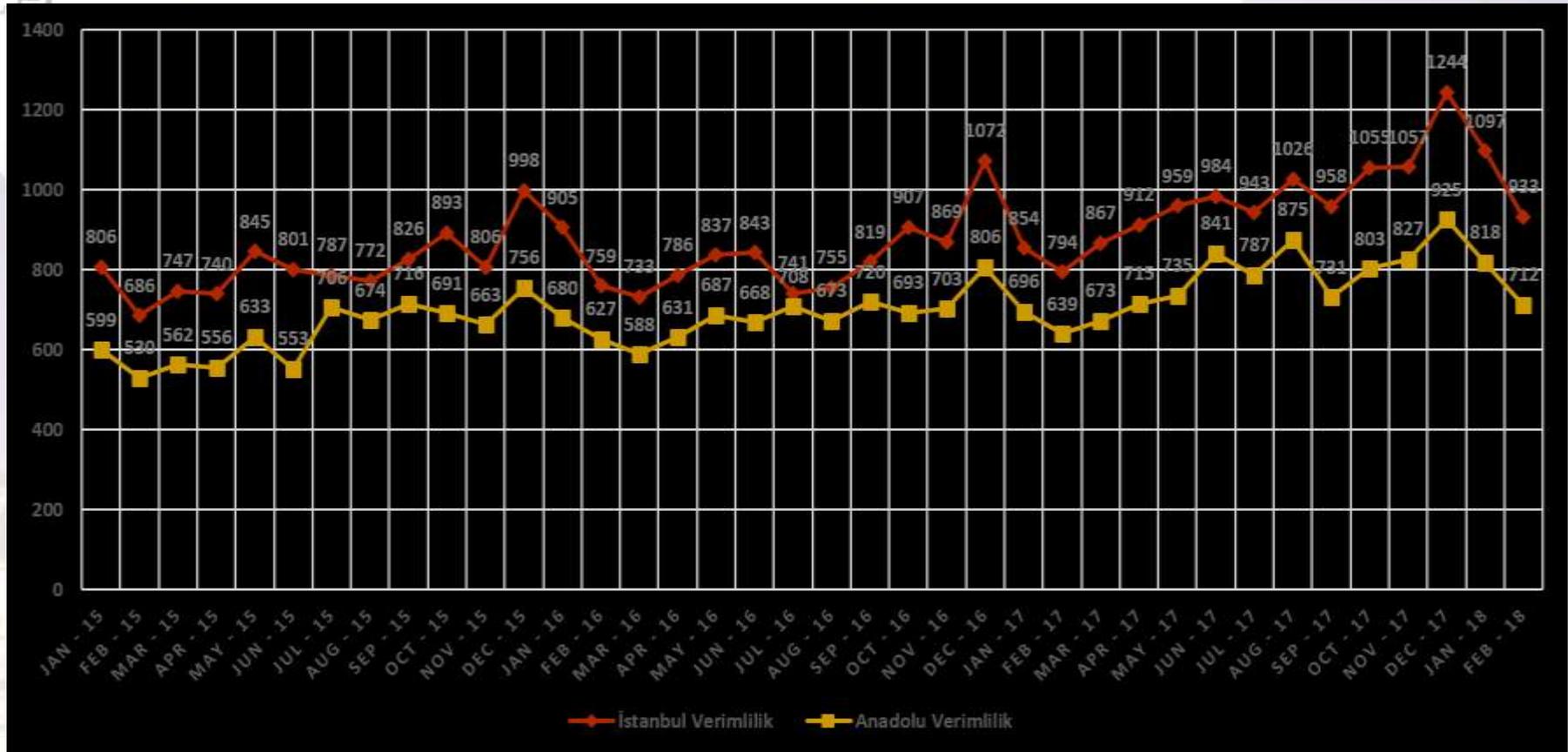
Source: AYD 2018

SM Turnover Index: When the February 2018 period was compared with the same month of the previous year without adjustment for inflation, turnover index increased by 14.1% to 210 points. The February index decreased by 13.9% compared to the previous month.

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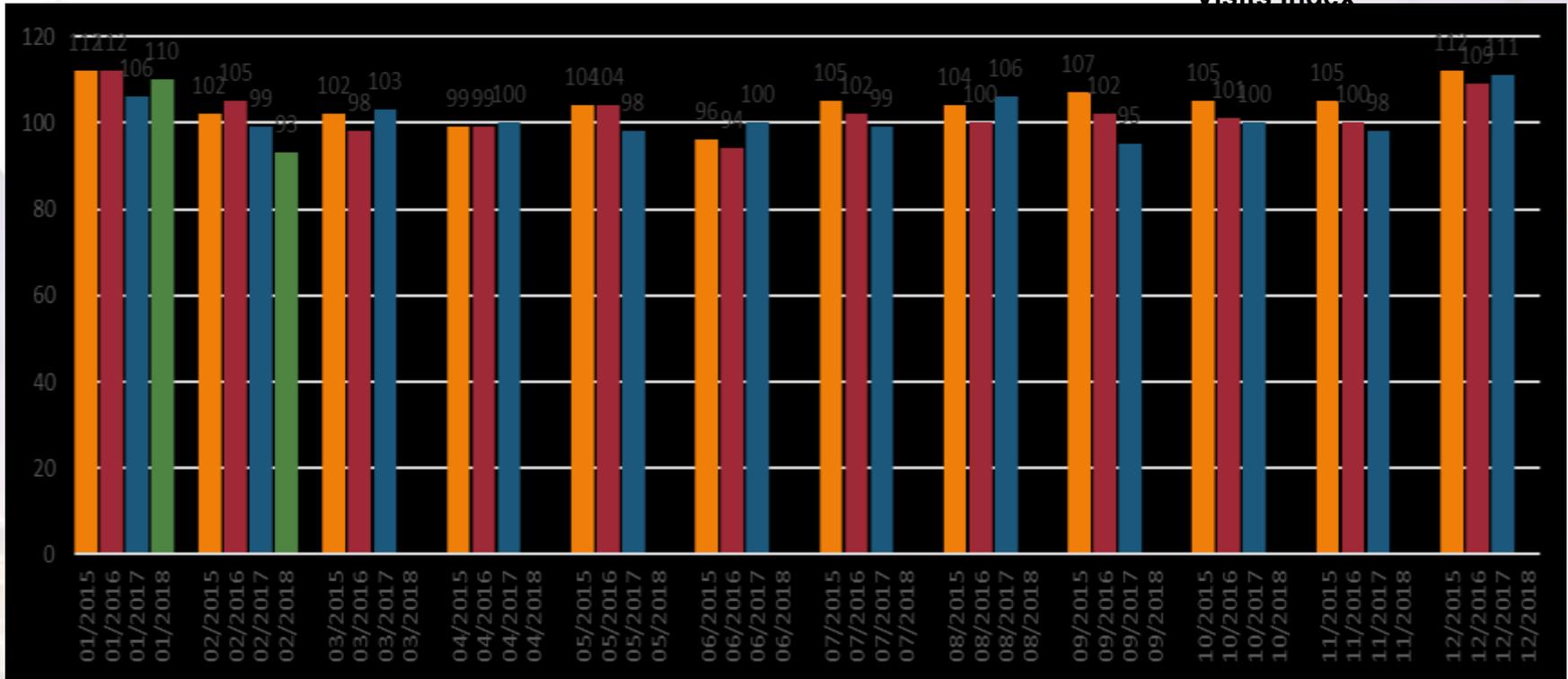
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Turnover per rentable area (m²) in SMs was **933** TL in Istanbul, **712** TL in Anatolia and **801** TL in the country as of February 2018.

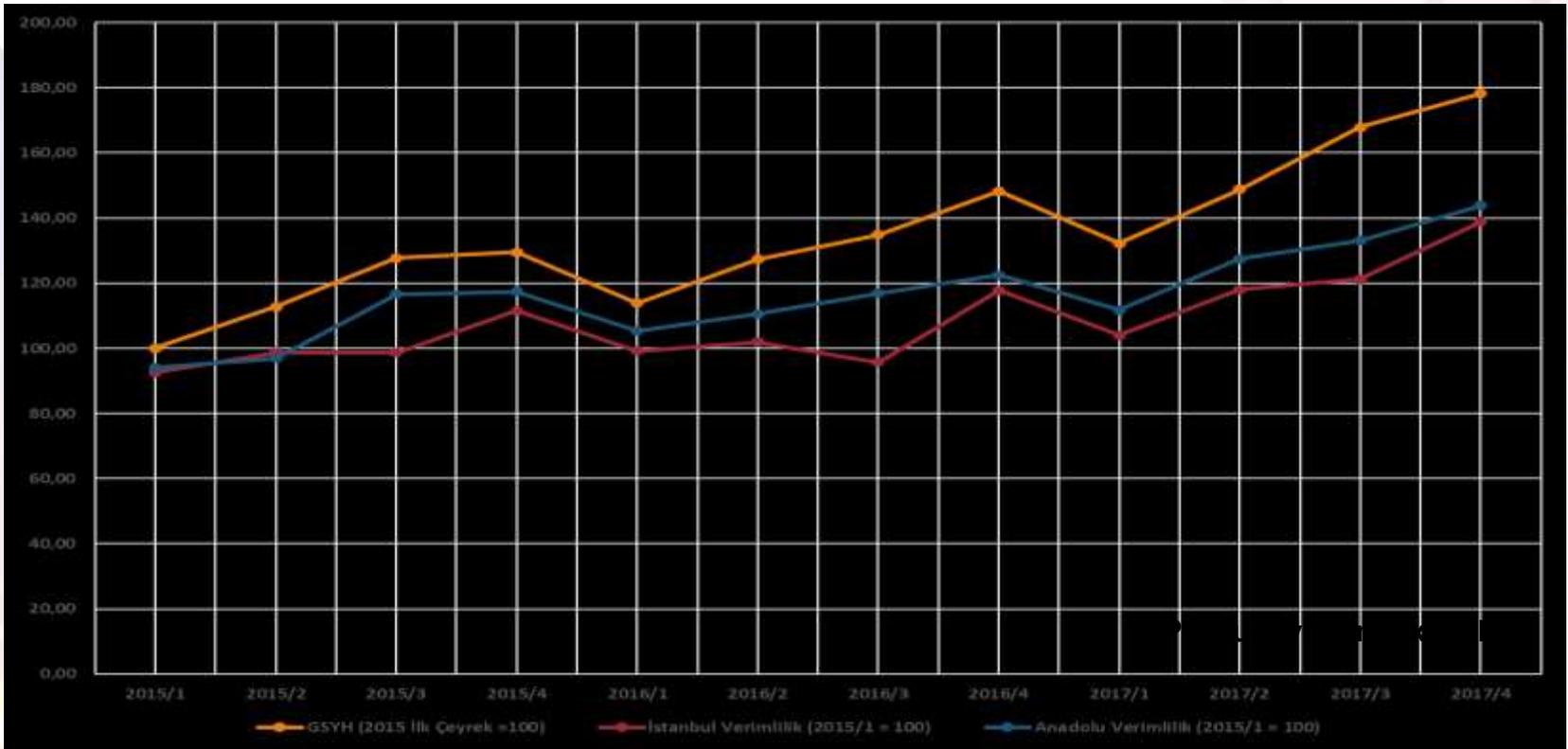
Visits Index



Source: AYD 2018

There was a **6.1%** decrease in the number of visits in February 2018 compared to the same month of the previous quarter.

- The correlation between GDP and productivity of SMs (turnover per rentable area (m²)) was found to be 0.96, and there is a positive correlation between GDP and SM Productivity.

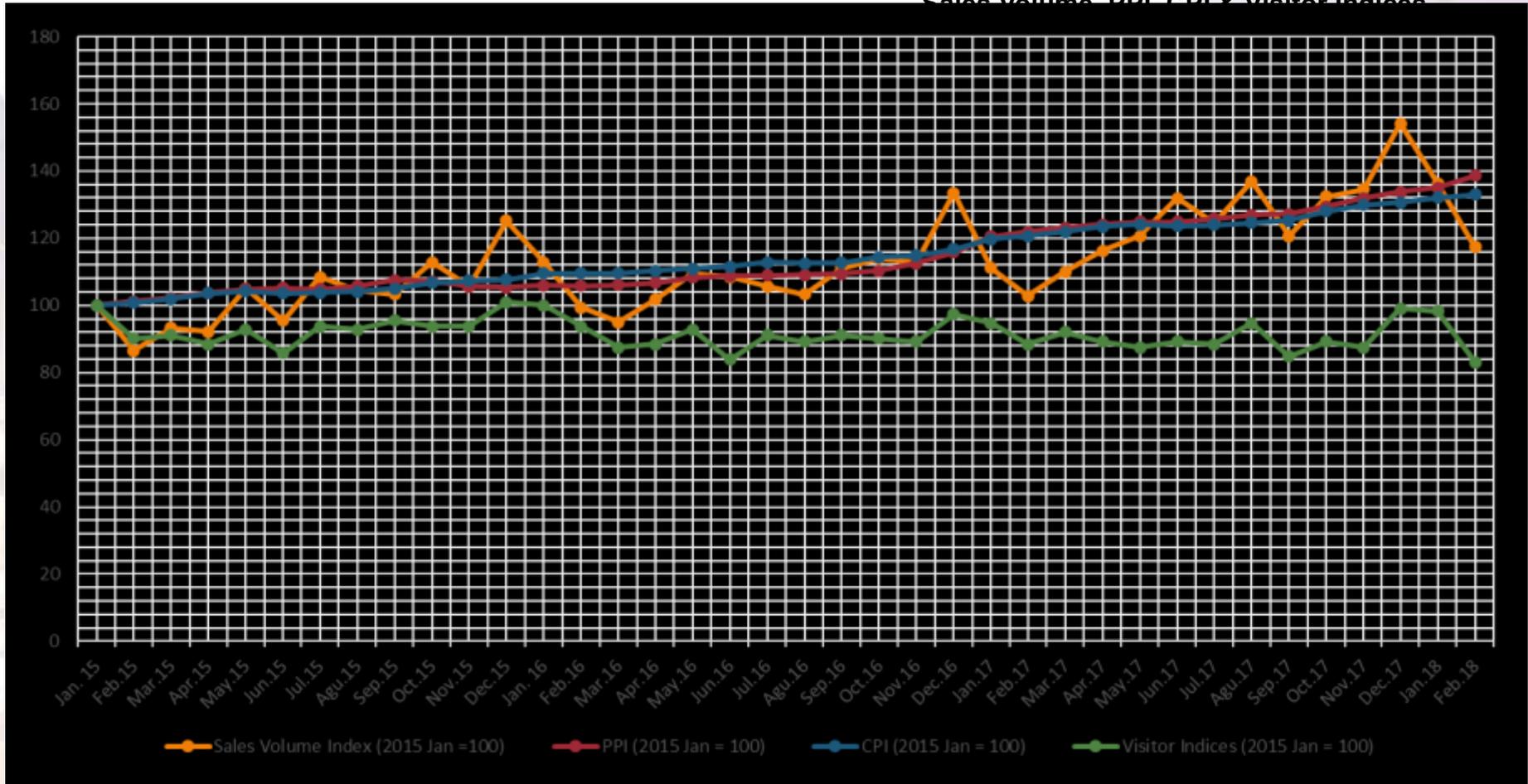


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Sales Volume, PPI, CPI & Visitor Indices



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❑ Preferences for SM Investments in Ankara

- PARCEL SIZE: 5,700 – 66,500 m²
- Gross closed area: 4,800 – 420,000 m²
- Average parcel size approximately **36.200 m²**
- Gross area average: approximately **108.500 m²**
- The zoning plan function of the site: Commercial area and non-residential urban service area
- In addition to the high population of the district in which the SM is located, it is also necessary to consider the culture of shopping from SMs, per capita income, and the difference between the day and nighttime populations in project development.

Information about Shopping Centers in Ankara

No	SM Name	District	Neighborhood	Block/Parcel	Parcel Area (m ²)	Closed Area (m ²)	Plan Function	Population of District
1	Kentpark	Cankaya	Karakusunlar	9014/3	70485	242,000	Trade Area	921,999
2	CEPA	Cankaya	Karakusunlar	28162/1	53191	180,000	Urban Business Area	921,999
3	Panora	Cankaya	Dikmen	29087/1	30707	179,565	Trade Area	921,999
4	ATG SM	Cankaya	Eti	29216/8	69382	175,000		921,999
5	Gordion	Cankaya	Cayyolu-1	61080/1, 61081/2	50000	165,000	Trade Area	921,999
6	Taurus SM	Cankaya	Karakusunlar	27354/1	25937	141,500	Urban Business Area	921,999
7	Next Level	Cankaya	Karakusunlar	27457/4	19590	127,064	Urban Business Area	921,999
8	Bilkent Center	Cankaya	Lodumu	26053/7	74822	106,526		921,999
9	Galleria	Cankaya	Cayyolu	13994/17	6978	77,000	Urban Business Area	921,999
10	365 SM	Cankaya	Yildizevler	28451/1	25000	68,855	Trade Area	921,999
11	Karum SM	Cankaya	Gaziosmanpasa	2944/21	17990	62,547	Trade Area	921,999
12	One Tower	Cankaya	Dikmen	16743/6	22264	53,525	Trade + Residential Area	921,999
13	Arcadium	Cankaya	Cayyolu-1	18094/1	11474	38,500	Trade Area	921,999
14	Kızılay SM	Cankaya	Kızılay	1163/24	7134	30,000	Urban Business Area	921,999
15	Mesa Plaza SM	Cankaya	Cayyolu-1	17041/3	21752	28,800	Trade Area	921,999
16	Ansera SM	Cankaya	Aziziye	29334/2	5700	20,000	Trade Area	921,999
17	Beysupark SM	Cankaya	Cayyolu-1	43592/5	24000	20,000		921,999
18	Ambrosia SM	Cankaya	Karakusunlar	29096/6	5.03	10,000	Urban Business Area	921,999
19	ODC SM	Cankaya	Karakusunlar	16151/2	3496	8,315	Urban Business Area	921,999
20	Turkuaz SM	Cankaya	Cayyolu-1	18048/1	2338	4,800		921,999
21	Antares	Kecioren	Ayvali	90057/4	84469	222,000	Urban Service Area	917,759
22	Forum Ankara	Kecioren	Ovacik	90222/1,2,5	164101	170,000	Trade Area	917,759
23	FTZ	Kecioren	Kavacik Subayevleri	33841/1	5559		Trade Area	917,759
24	Ankamall	Yenimahalle	Gazi	43344/2, 43345/1	100725	270,532	Urban Service Area	659,603
25	Atlantis SM	Yenimahalle	Yuva	15049/6	30812	240000	Residential + Trade	659,603
26	Podium	Yenimahalle	Macun-1	43574/3	58598	172,000	Urban Service Area	659,603
27	Armada	Yenimahalle	Orman Ciftligi	13784/4	30000	125,000		659,603
28	Gimart Outlet	Yenimahalle	Macun-1	43312/4	24625	77,000		659,603
29	Acity	Yenimahalle	Macun-1	42875/6.10	19986	50,000	Urban Service Area	659,603
30	Nata Vega	Mamak	Uregil	39658/5	50292	184500	Urban Business Area	637,935
31	Anatolium	Mamak	Uregil	39658/6	66500	57,969	Non-residential Urban Business Area	637,935
32	Metromall	Etimesgut	Eryaman	46510/1	49796	420,000	Urban Center	566,500
33	Optimum Outlet	Etimesgut	Eryaman	46397/4	30976	70,000	Urban Business Area	566,500
34	Goksu SM	Etimesgut	Eryaman	48147/1	90679	35300	Urban Center (Trade Area)	566,500
35	Ankamob SM	Mamak	Derbent-zoning	51182/1	15425	32550		566,500
36	Ak Center SM	Etimesgut	Eryaman	46522/5	6.457	22,000	Trade Area	566,500
37	Ankara Dolphin SM	Etimesgut	Eryaman	46543/6	6.178	21,000	Commercial Area	566,500

□ Factors affecting location selection of shopping centers :

- Accessibility/proximity,
- Visibility,
- Competition environment,
- Land/lot situation,
- Infrastructure facilities,
- Socio-economic and demographic structures,
- Near environmental factors and future developments, etc.

□ Investment site selection criteria according to the field study conducted in Ankara province :

- **Accessibility:** Transportation by public transport and private vehicles, presence of parking,
- **Socio-economic and demographic structures:** Population of at least 600 thousand and addressing the population of the target region
- **Visibility:** Being on main roads/streets and location
- **Competition environment:** No similar shopping malls around

➔ **Current situation in Ankara: 37 SMS**
«There are still new investment projects»



One of the most important location selection criteria for shopping centers in Ankara:
Ease of transportation «Accessibility»

➔ The Mevlana Boulevard and Dumlupinar Boulevard (Eskisehir Road) route

❑ Failed SM Investments: Maltepe Park Example

Accessibility is inadequate, architecture is not favorable, population in the areas is low, and the result: closed for the past 7 years



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❑ **ANSE SM Project:** Project area is poorly connected to the main road, product/tenant mix and expectations of surrounding people are not compatible - low rental income and delayed ROI



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□ **Kentpark SM & CEPA SM Projects:** Two large shopping mall investments on two neighboring parcels – two investment projects with relatively high occupancy and rental income levels with a neighborhood effect or a synergy effect



Common Usage Areas in SMs

(Regulation on SMs, Art. 6; O.G: 02/26/2016, p. 29636)

- Social and cultural activity area
- Emergency medical intervention unit
- Prayer room
- Baby-care room
- Children's playground
- Resting areas
- Other areas
- **Unintended use of common areas** - allocation to leasing and business activities: cafe, cosmetics, florist, tailor, repair-maintenance, car-wash... etc.

Shopping Mall Management

(Regulation on SMs, Art. 6; O.G: 02/26/2016, p. 29636)

«Real or legal entity authorized by the owner of the shopping mall to manage the shopping mall»

❑ SM management models: two different management models

- Owner-manager/in house management
- Paid (fee) managers/outsourcing

❑ **Owner-manager/in house management:** In small-scale investments, the proprietor runs the property on a daily basis. As the center grows, difficulties in management and supervision by the owner emerge and a paid on-site manager is appointed.

❑ In general, activities such as cleaning, maintenance-repair, and promotion are given to contractors and private firms instead of staff on payroll, and the success of the investment depends entirely on the personal success of the property owner.

❑ While it is emphasized by Vida and Richard (1991) that full-time managers are usually not employed regularly in centers with a gross rentable area less than 28,000 square meters, there are salaried employees in every scale in Ankara.

- ❑ **Paid (fee) managers/outsourcing:** As it is not efficient in terms of time and resources to manage the SM by creating their own management staff in a highly competitive environment, investors are choosing outsource management services to professionals that monitor the sector on a daily basis in order to increase the value of the investment.
- ❑ These professional managers who manage shopping malls can be real estate management companies, a management firm, a law firm, a person who specializes in this area, or a management development company.
- ❑ The critical point is a contract between the manager and the investor, and the contract must specify the work, authority and responsibilities of the professional managers, the duration of the service, and the fee and additional benefits to be paid for the services.

- ❑ The rapid development of shopping malls and the increase of investors in this area have brought facility management companies to the foreground.
- ❑ Investors may approach management companies to obtain management services at any stage of their activities, but it is necessary to initiate this during the investment planning and construction periods,
- ❑ Management companies usually appoint a specialist to the SM to organize the works they undertake and this system is termed «**third- party center management system**»,
- ❑ Management companies are on duty in only two of the 37 shopping malls located in Ankara while the rest are managed by the investor – **professionalism is very insufficient.**

□ The results of the survey with senior and medium level managers of 37 facilities, judicial decisions and other data were used to examine the management of multi-storey commercial buildings in Ankara Province and the management of SM investments in particular.

□ According to the results of face-to-face interviews made with the SM managers, the form of management of investments, business models, determination of rent and common expenses, payment issues, facility management problems, and possibilities for developing the management model have been evaluated.

- ❑ **Approaches to the investor and developer being the same or different and SM management is in-house or outsourced:** 27 managers said that in-house management increased managerial efficiency and productivity, 6 argued that both models had some advantages and disadvantages, and 4 specified that the management type should be determined in investor-specific manner.
- ❑ **In-house management style** is thought to contribute positively with qualities such as efficiency, efficiency, speed, investor reflex, increasing motivation, long-term and stable, and being in the SM climate as a team.

- ❑ **Services that SMs outsource** include areas such as cleaning and security services (30 facilities), maintenance and repair services (21 facilities) as well as landscaping, advertising and marketing communications, rental consultancy, spraying (15 facilities).
- 17 managers have not planned to make outsourced services in-house, 7 managers stated that security services cannot be outsourced, 7 managers specified that planning can be made according to benefit and cost analysis results, and 6 managers asserted that all services can be planned to be conducted in-house.
- **RESULT:** Large fixed investments, poor real estate and asset management approaches.

- Investors' expectations from shopping mall managements:** increase the market value of the real estate, shorten the return period of the investment, increase turnover and profitability.
- Provision of tenant and customer satisfaction, regular rent income, acquisition of new brand, solution of problems at the source, provision of quality services, having the investor reflex are expressed among other expectations items.

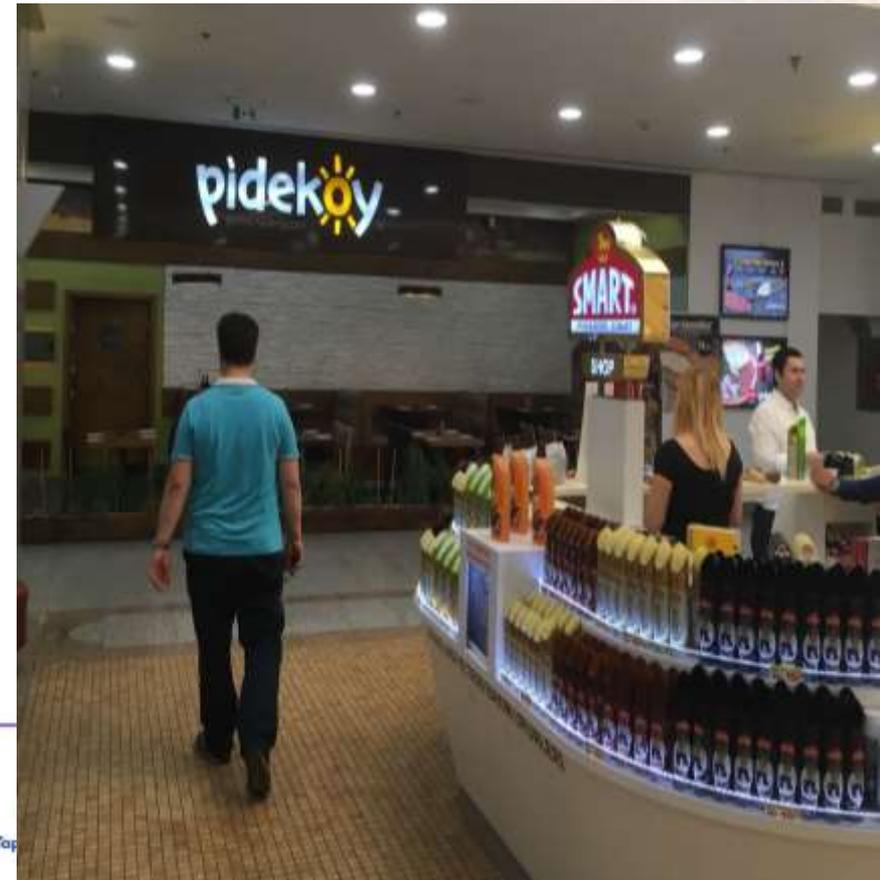
- **Tenant-manager conflict areas:** 17 of the managers have frequent conflicts with the tenants on visitor numbers and inadequacy of reflection in turnovers, 15 on common expenses and service fees, 5 on advertising & promotion, marketing, campaign and event organizations.
- **According to tenants, the manager must be** reachable, approach the tenants equally and produce solutions, protect contractual rights and tenants, and establish a balance between the investor and the tenant at times when exchange rates are rising excessively.

- ❑ While tenants' non-contractual claims constitute the main area of conflict, general expenses and marketing expenses, rents & turnover ratios, and competition management are listed as main conflict areas.
- ❑ **Criteria for the calculation and distribution of common area expenses:** 20 participants argue that distributions should be on a m² basis while 17 specify that different criteria in addition to m² should also be used.
- ❑ **Analysis of 100 selected judicial decisions:** There are significant problems in the determination of SM rental money, not considering it within the context of the roofed business in the Law of Obligations, not being based on rational principles of rent determination, inadequate usage of automated valuation model and other digital techniques, and particularly in mixed projects, common expenses, parking and common areas management and usage.

- ❑ **Determination of Tenant (Shop) Mixture:** It is emphasized that due to the lack of a adequate feasibility studies in determining the brand mix and concept of SMS, managers remain inadequate against the increasing demands and bargaining powers of brands and there is a requirement for continuous improvement for proper mix formation.
- ❑ 20 managers emphasized that the choice and mix of tenants directly affected the financial sustainability of the shopping mall and that effects such as ensuring access to the target population, being a reputation and marketing element, ensuring competitiveness, and making visitor choice constant – synergies and neighborhood effects – should be maximized.
- ❑ It can be argued that the main factor in the development and management of the investment is the tenant mix. Preliminary studies and feasibility studies of developers and managers to determine the tenant mix while the project is in the investment stage are inadequate.

❑ ANKAMALL Project - Creation of brand and product range-
creation of tenant mix

Basement floor: computer-pita-shoe shop compatibility?



- ❑ Creation of tenant mixes that are not represented in the local market in terms of prices and products and that do not compete with each other in the shopping mall is insufficient.
- ❑ Renting with TL and foreign exchange equivalent of TL is common and service fees are collected separately in addition to rent.
- ❑ There are factors that make shopping malls unattractive, force tenants and make them avoid being tenants.
- ❑ **The most important ones of these in Ankara are** higher rental monies, low turnovers and higher costs of common area expenditures including the advertising costs.

- ❑ **Security, Cleaning and Technical Issues:** All participants expressed their opinion that security services are necessary and suggested that the facilities should be supported with state-of-the-art technological security systems,
- ❑ Events such as parking, theft, arguments, fighting are commonest of the events requiring security intervention and it is stated that individual security should be used predominantly.
- ❑ The main problem with cleaning is hygiene and standardization is targeted through reduction of personnel turnover, training and intensive supervision.

- ❑ 17 of the managers state that cleaning services are a competition element factors such as employment power, strong institutional and financial structure, equipment park, and standards adopted by the business are taken into consideration in selection of the cleaning firm.
- ❑ Problems caused by heating/cooling systems and insulation, maintenance & repair faults, and stores are considered basic technical problems in SMs.
- ❑ Business Administration, Technical (Operations), Marketing, Tenant Relations (Leasing), Accounting (Finance) departments are established for SM management.
- ❑ There are SM Manager, Business Manager, Marketing Manager, Rental & Tenancy Relations Manager, Technical Manager, Accounting & Finance Manager and sub-staff positions, but all of them have learned what a SM is through trial and error in their working life.
- ❑ Only 3 real estate development and management specialists are working as middle and top managers in SM managements.

GENERAL EVALUATION AND SUGGESTIONS

- ❑ Development of professional management for multi-storey commercial buildings, especially shopping centers and mixed real estate projects, is necessary for investment success and shortening the return period,
- ❑ There is a requirement to perform comprehensive preliminary work and detailed project evaluation before making the investment decision in establishing shopping centers and mixed-use projects in multi-storey buildings,
- ❑ The short life time of commercial investments: The Karum, Atakule, and Minesera Projects,
- ❑ The use of failed shopping malls for other purposes is also not successful – the example of Minesera: Conversion of SM to hospital or office space.
- ❑ The problems related to the development and management of commercial real estate projects are shaped according to macroeconomic and political processes,
- ❑ There is a requirement to make special arrangements on the concept of multi-storey commercial buildings and their management and especially that the SMs should be a single structure or building group in mass,

- ❑ Due to the high investment cost in shopping malls and the need for know-how of successful investment development and operation, the necessity of outsourcing management works and working with professional management companies rises,
- ❑ Delivering some services in-house and outsourcing some of them negatively affect service quality and investment success – **coordination issues and results,**
- ❑ The choice of location, project development, architectural and construction quality in SMS are effective on the success and brand mix and related leasing transactions should be managed before opening,
- ❑ According to the results of the fieldwork, professional management cadres should be created and they should be delegated authorities to speed up the return of investment and to ensure financial sustainability,
- ❑ Establishment of facility management and real estate management companies – Internalization of standards such as RICS, IFMA, IPMS.

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