Development of a methodology for increasing the economic efficiency of a commercial real estate facility within the framework of a reconceptualization project in the context of current market trends

Each commercial real estate facility, whose functional concept remains unchanged for a long time, can be exposed to the influence of external and internal factors, that may reduce its economic efficiency and purchasing power that need to be restored by landlords who will take urgent measures. Reconceptualization is a method used to improve the economic efficiency of commercial and leisure property. The co-authors propose a methodological framework of the most rational and appropriate method of reconceptualization project to increase the economic efficiency of a commercial real estate facility in the current market environment. It should also be noted that an economic crisis magnifies weaknesses of entertainment retail centres, and any reconceptualization strategy must take account of this phenomenon. Firstly, it is necessary to analyze the reasons for profit reduction, assess the resources and the potential of a facility, its market environment, and the prospects for its further operation. Under these conditions, reconceptualization may be regarded as an anti-crisis development strategy.

Keywords: development of retail real estate, reconceptualization of retail real estate facilities, economic efficiency increase, consequences of the pandemic

A permanently changing market environment, macro- and microeconomic trends are forcing developers to look for opportunities to maintain the profitability of and demand for shopping centres [1]. Landlords can use various methods to restore the economic efficiency of their property and increase the customer traffic. These methods may include complete modernization, renovation and redevelopment. However, reconceptualization is one of the most cost effective methods. Reconceptualization is a set of works, aimed at changing or rethinking the general idea and the market position of an item of retail property by modifying its characteristics with regard for the current market trends [2]. Reconceptualization of a shopping centre has four constituents: a commercial and spatial concept; a positioning in respect of the target audience; visual a component, and technological modernization [3, 4]. Identification of the most rational and appropriate method of reconceptualization for a particular property can be a daunting task for a developer. The development of a reconceptualization strategy and identification of its extent need a comprehensive preliminary study of a specific property that must encompass a market research, main trends, competitive analysis, audience research and many other factors [4]. A reconceptualization project encompasses an in-depth analysis of possible limiting factors that can seriously affect the efficiency of any proposed solutions, reduce the potential of a facility or make the reconceptualization project impractical [5]. In order to form a system of methods for assessing the economic efficiency of shopping and entertainment centres in the present-day economic environment, researchers should formulate the fundamental factors that may influence modern shopping and entertainment centres [6]:

1) an integrated concept of a shopping centre. The concept of a shopping centre should be developed at the design stage and incorporated into the business plan as the project backbone;

2) unique architectural, technical and technological features of a shopping centre, which meet the needs of particular potential tenants; convenient access to the shopping centre and its parking lot; the ability to manage the customer flow inside the shopping centre building;

3) an intelligent shopping centre management system. It entails the regular monitoring and analysis of the market environment and the position of the shopping centre;

4) the multifunctionality of a shopping centre or its ability to meet a wide range of needs of its customers in one place at a convenient time;

5) flexible space. The changeability of the layout of a retail space in order to meet the needs of various tenants, comply with versatile regulations, and improve the efficiency.

Numerous performance indicators are used to evaluate the effectiveness of the shopping center management, the principal ones include [7, 8]:

1) shopping center attendance. At present, experts perform both quantitative and qualitative analyses of the customer traffic;

2) sales. The sales index shows the number of products sold and the amount of revenue received by a specific tenant and allows the management company to determine the traffic quality and performance of the entire shopping centre;

3) the average amount of time customers spend in the area occupied by each tenant. This indicator demonstrates the level of customer interest in specific tenants and the attractiveness of their product mix;
4) the product mix plays an essential role in assessing the attractiveness of a shopping centre as it determines the level of interest of visitors in its goods and services;

5) the commodity turnover per unit area is one of resulting aspects showing the overall economic efficiency of a shopping centre;

6) the average customer spend indicates the target audience and satisfaction of customers with the product mix;

7) technical requirements, formulated by tenants, mainly, the “anchor” ones, in respect of the shopping centre building.

However, not every shopping centre has the whole set of levers available. It is necessary to assess the potential of a shopping centre with regard for the limiting conditions to devise a competent strategy for the development of an item of retail and leisure property and determine the trajectory of its reconceptualization [9]. The assessment of the property potential will demonstrate the ways to increase its economic efficiency, determine the return on investments and verify the feasibility of a particular strategy [10]. Also, it is necessary to conduct a feasibility study, which will allow to assess the economic feasibility of the proposed project on the reconceptualization of an existing shopping centre, which must meet the following requirements to ensure its most effective operation [11]:

1) the physical capacity determines the correspondence between the development concept and potential resources of a facility, that encompass its design, architectural and planning features, as well as engineering systems and communications that cannot be changed;

2) the legislative admissibility determines possible legal restrictions. The reconceptualization project must not be subject to any restrictions of this type, either existing or potential;

3) the financial feasibility assessment. The proposed concept is analyzed in terms of its ability to generate the amount of income equal to or greater than the amount of operating expenses, liabilities and capital expenditures;

4) the final phase should result in the substantiation and selection of a project which is physically and economically feasible.

The development of a reconceptualization project is impossible without a feasibility assessment and a feasibility study. This method of the multi-stage assessment of proposed project concepts is employed to ensure informed decision-making on a particular strategy. The choice of a strategy should be made based on the adoption and implementation of the project that will generate maximal net income [12].

In order to verify the feasibility of a strategy, the co-authors suggest an algorithm for evaluating and justifying the choice of design solutions for a real estate facility:

1. Description and analysis of initial data on a specific facility to determine its resource potential, adjustability and improvability of its parameters.

2. It is necessary to evaluate the proposed design solutions in terms of compliance with effective regulatory documentation as part of the analysis of the criterion of physical admissibility.

3. The analysis of a set of conditions and decision making on the necessity and feasibility of including particular works into the strategy of a reconceptualization project.

4. Making a decision to adjust the parameter.

5. Structuring the information obtained as a result of the analysis of all the described conditions and initial data using the developed matrix designated for the selection of design solutions. Making the final list of works on the implementation of the reconceptualization project to assess its economic efficiency based on cash flow simulation.
options, based on the parameters that can take account of adjustment and constraints [13, 14]. The algorithm represents a set of iterations, that will help to consistently assess and evaluate the feasibility of a reconceptualization strategy consisting of various adjustments to parameters. These iterations include:

1) evaluation and justification of the choice of design options, that begins with a description of the main adjustable parameters and their potential to perform a preliminary assessment of the degree of influence of each parameter on the overall economic efficiency of a particular project;

2) the next step is the evaluation of physical acceptability. This step implies an in-depth assessment of the technical condition of a facility, its structural, architectural and planning features, which can prevent the performance of certain work aimed at correcting particular parameters;

3) after assessing the physical acceptability and if the proposed adjustment of parameters can be carried out, an assessment of the economic feasibility of the project should be carried out, which, in the first approximation, will be able to demonstrate the rationality of investments, their approximate amount, as well as evaluate the direct and indirect economic efficiency;

4) as a fourth step, a comprehensive conclusion about the physical admissibility and economic feasibility can be made and a list of works can be compiled to ensure the optimal and rational adjustment of this parameter, that is available in the solution selection matrix;

5) the result of selection of adjustable parameters and compilation of a set of works represents the final stage of the reconceptualization strategy development, which allows to tailor the facility to current market trends, meet the demand and needs of its customers, and increase the profitability and economic efficiency of a shopping centre.

The algorithm is represented as a block diagram developed by the co-authors. The block diagram features the main stages of the process of choosing a real estate facility for reconceptualization (Fig.) [7, 15].

The final choice of a reconceptualization strategy is determined using the developed algorithm, that is also employed to develop a project implementation strategy and financial plan to assess the cost effectiveness of various options of a reconceptualization project [7, 12]. The algorithm allows to assess the potential of each improved parameter, its physical acceptability and economic feasibility. Therefore, the reconceptualization project does not necessarily mean a radical change in the format of a shopping centre, since a small number of new tenants, minor repairs and alterations of interior solutions are sufficient to keep the shopping area attractive and profitable.

A reconceptualization project needs attention to detail and multi-staged research, including the marketing analysis, the purchasing power, the analysis of major market trends, the competitive analysis, the analysis of potential technical restrictions that may affect the maximal possible potential of adjustable parameters, the assessment of the physical condition and economic feasibility of its operation. These data will be used to develop a specific set of activities focused on the implementation of a reconceptualization project.

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