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B.Com. (Computer Application)

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RETAIL MARKETING MANAGEMENT

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Retail Marketing Management

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INTRODUCTION

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Retail marketing refers to the range of activities the retailer does to create awareness about the products or services among customers for selling. Retail marketing comprises of visual merchandising, sales promotion, advertising, and marketing mix. It is thus the application of marketing functions in distribution of goods to the customers. Organized retail is not just selling of goods, it embraces activities of marketing like grading packing, promotion and advertisements and show casing variety of goods, at reasonable price with offers like discount, credit. Retail marketing provides convenience, comfort in shopping in place or medium that is convenient to the consumer.

Retail and marketing are two different concepts, whereas retail is selling in small desired quantity to the people, marketing includes set of functions like transportation banking, insurance, warehousing and promotion. The main purpose is to deliver the goods to the people that can result in customer satisfaction.

This book, *Retail Marketing Management*, is divided into fourteen units that follow the self-instruction mode with each unit beginning with an Introduction to the unit, followed by an outline of the Objectives. The detailed content is then presented in a simple but structured manner interspersed with Check Your Progress Questions to test the student's understanding of the topic. A Summary along with a list of Key Words and a set of Self-Assessment Questions and Exercises is also provided at the end of each unit for recapitulation.

BLOCK I:
PROPERTY MANAGEMENT

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UNIT 1 INTRODUCTION TO PROPERTY MANAGEMENT

Structure

1.0 INTRODUCTION

This unit introduces the concept of real property and identifies the types of real properties. It discusses in detail the need for property management, and the duties and roles of a property manager. This unit also examines the growth of professionalism in the field of property management.

1.1 OBJECTIVES

After going through this unit, you will be able to:

- Define real property
- Identify different types of real properties
- Discuss the concept of property management
- Analyse the duties of a property manager
- Examine property management as a profession

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1.2 CONCEPT OF REAL PROPERTY

The word 'real property' refers to land and any property attached directly to it. It also includes the subcomponent of land that has been improved through legal human actions. Some examples of real property are buildings, ponds, canals, roads and machinery.

In other words, real property can be considered as any immovable property composed of any designated position of land and anything permanently placed on or under it. It means that the components on the surface of earth or under the surface i.e., natural resources or human made structures are included in the definition of real property. When you own a real property, the bundle of rights is also transferred from seller to buyer during the sale of property. The person acquiring the real property or any form of real estate has the following rights:

1. Right of Possession Control
2. Exclusion
3. Enjoyment
4. Disposition

The word 'real' is derived from the Latin word '*res*' which means 'things', used in Middle English to mean "relating to thing, especially real property". It is also called real estate, realty or immovable property. Real property refers to a land, which is the property of any person. The owner of the property owns all the other structure associated with that property, including crops, buildings, machinery, wells, dams and ponds. Real property is protected by some form of real action, in contrast to personal property, where a plaintiff would have to resort to another form of action. The part of real property under the surface includes oil, gases and minerals found under the land.

Therefore, real property can be broadly defined as land and anything growing on or affixed to or built upon the land. Real property does not move and is attached to the land. Real property cannot be transferred physically unlike personal property, which can be moved or transferred easily.

Check Your Progress

1. Define real property.
2. Mention the rights of a real property owner.

1.3 TYPES OF REAL PROPERTY

Real property can be classified into four types:

- Residential
- Industrial

- Commercial
- Special Purpose

1.3.1 Residential Property

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Residential property can be defined as any property that any municipality or local authority has allotted for single-family homes, apartments, cooperatives, townhouses and any other place where people live. It is used only for residential purposes. Any building that is used for suitable use as a dwelling or is in the process of being constructed is a residential property.

The different types of residential properties are:

(a) **Flats or Apartments:** A flat is a single-family dwelling in an apartment. An apartment is a multistorey building that contains a number of flats with different sizes i.e., large, medium and small. These flats are suitable for middle-income households that cannot afford to have an independent house and also small-sized families. The repair and maintenance of these apartments are shared by the flat owners equally or as per the accommodation in the apartments.

(b) **Plots or Lands**: These are single plain lands that can be termed as real property as they are immovable and cannot be transferred easily to any other place. The lands or plots can be used for multiple purposes. A single land or group of land can be used for construction of residential properties or for commercial purposes too. Other things attached to the land whether on the surface or under the surface, including trees, plants, oil, gases and minerals are also considered the land owner's property. Such land can also be used as an agricultural land under which the crops grown will be treated as the property of the land owner.

(c) **Townships**: It is the newest trend of residential property. It is a type of residential place, which is constructed on large-size plots. It includes other types of residential property, such as apartments, villas, row houses and independent bungalows. Townships are constructed on the level of mini towns or cities. Townships offer basic amenities, such as shopping complexes, clubs, swimming pools, gyms, sport complexes and also many a times they also have a school. A township is the most suitable from security point of view as it is a covered campus and entry for outsiders is prohibited without permission. It can be a mixture of residential as well as commercial properties.

(d) **Villas:** A villa is a large, detached structure with spacious land surrounding it. A villa is a residential property for rich and wealthy families. It is acquainted with many personal properties surrounded by the structure like a garden,

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ponds, farms and swimming pools. It is a luxurious property resembling the lavish lifestyle of rich families. The villa is a single-family dwelling property.

(e) **Independent Bungalows:** Bungalows are large buildings designed for use as single-family dwellings. Bungalows are different from villas as they are large detached structures for residential purpose. It is not surrounded by spacious land. Row houses, duplex structure can be included in the types of bungalows. The repair and maintenance of bungalows is handled by the owner or the property manager of the house.

1.3.2 Industrial Property

Industrial property is used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on a large scale. There is involvement of capital and labour and there is a space for office or other accommodation on the same property. It includes activities such as manufacturing, engineering, research and development, warehousing or parts distribution facilities. The laboratories used for the purpose of Research and Development (R&D) are also part of industrial property. The different types of industrial property are:

(a) **Heavy Industrial Buildings**: They are large-size buildings used to manufacture heavy goods, such as cement, steel or automobiles. They usually have large store houses to keep raw material and semi-finished products on a large scale. These buildings house large blast furnaces, air and water pressure lines, high-capacity exhaust system, cranes and storage tanks. These building are designed to manufacture a particular type of product. For example; cement industry cannot be used to manufacture steel products.

(b) **Warehouses:** These are large buildings used to store goods on the behalf of other companies. These buildings are usually located outside the cities. They have more than one storey and can have loading docks and huge parking lots for big trucks. They can also have a small office set up inside the premises.

(c) **Telecom Centres:** These facilities have large servers and computers, and have much specialised industrial setup wherein there are large power lines capable of powering the computers. These are located in closeness to large communication lines.

(d) **Cold-Storage Buildings**: These buildings are used to store food products at a large scale under refrigeration for a long period. These are located along with state borders or national highways where there is good supply of electricity.

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(e) **Light-Manufacturing Buildings**: These buildings can be used for processing food items or assembly of light machinery such as fans, water pumps, gadgets, etc. These are generally small-size buildings as compared to heavy industrial buildings and do not have blast furnace, high-capacity exhaust systems, etc. These buildings can sometimes find alternative uses like a unit-making water pump can be converted in to assembly unit for gadget by making changes in the some of the installed machinery.

(f) **Research and Development Setup:** R&D is an important part of many industries, and many companies' sets up their own R&D unit. A lot of life sciences companies have their R&D centres, which are usually owned by them. These centres are generally not located in the centre of the city. Companies can house their scientists and other staff in these centres and hence there are residential elements in this kind of a setup.

(g) **Flex Buildings**: Flex buildings are new trend in industrial property. These building have more than one usage and can accommodate an R&D facility, an office setup, light manufacturing and even showroom spaces. They are flexible in nature and some of the uses can be changed by making simple modifications.

1.3.3 Commercial Property

Commercial properties are used for business activities. Different types of commercial properties include malls, grocery stores, office buildings and manufacturing shops. The efficiency of a commercial property is measured on the sales ratio, new rates of construction and occupancy rates. Overall, a commercial property is established according to the success rate of business activities in that region.

The types of commercial properties are discussed below:

(a) **Offices**: These are the spaces available to set the offices of different companies. The property is designed as per the requirements of any general office. It includes cabins, desktop tables, reception, store room, conference room and a waiting area. The office size can differ according to the scale of business activity and also the number of employees. In cities, there are specialised multi-storey buildings constructed for selling its space for offices, many companies can run their front desk work from a common building.

(b) **Retail Buildings**: Retail is an important aspect of the consumer economy. There are different types of retail buildings, especially used for selling the physical goods. Nowadays, there is a trend of hybrid retailing where the retail store arranges a leisure time space for attracting more and more consumers. The smallest form of retail building is a

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grocery store or a shop, which sells a particular type of product. Malls are also a type of retail buildings, constructed on a large scale, and have sections for many small stores. Malls are not just to setup small shops or stores to sell physical goods but they also have sections for entertainment, such as multiplexes, game zones and food zones. Some other retail buildings are supermarkets, departmental stores, fashion houses and electronic stores.

(c) **Industrial Properties**: Industrial property is also considered a commercial property as it is also used for business activities. Industrial buildings are used for manufacturing purposes and also for R&D. Some examples of industrial property are heavy- and light-weighted manufacturing units, R&D setups, warehouses, telecom centres and cold storages.

(d) **Hotels:** These buildings fall under hospitality management. They are constructed on large and medium scale. They can have a number of rooms of different sizes, big suites, restaurants, small gift stores, spa, gym, bars and game zones. Hotels are the most important aspect of the tourism industry. They are ranked as per the facilities they provide. The things available at hotels are as per the comfort of the guests.

1.3.4 Special Purpose Property

Special purpose properties are appropriate for one type of use or limited use. They have unique designs and layouts. The designs are according to the usage of the property. The construction material and other structural designs are also limited to the use of the property. These types of building cannot be used for any other purpose other than for which they are constructed. Special purpose buildings include temples, mosques, church, theatre, school or any other public utility building. These buildings are built according to cultural and social aspects. Their market is also limited due to their specialised nature. Such buildings are known as special design property.

Check Your Progress

3. What is the difference between a flat and an apartment?
4. Define residential property.
5. List the different types of real properties.
6. Name the different types of commercial properties.
7. Define special purpose properties.

1.4 CONCEPT OF PROPERTY MANAGEMENT

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The concept of property management and the role and responsibilities of property manager evolved during the time of urbanisation and the increasing demand of rental properties. Consequently, the demand for rules and regulation increased and the real estate became a more complex procedure. In the mid-19th century, the sudden demand for housing in cities and the lack of rental properties compelled real estate owners to convert single-family dwellings into multiple apartments to keep up with the demand. Real estate owners merely collected rent and provided tenants with the essential repairs. There were no incentives to make the tenants happy. The properties were poorly lit, with lack of plumbing and ventilation. The Pre -World War period came with certain regulations that compelled the house owners to provide their tenants with liveable conditions. The 19th century was a period of rapid construction of residential properties until World War I and after 1920s. This increased the number of apartments and also created a source of income for middle-income families as well. This resulted into the proper marketing of a property as a place of comfort and quality. Consequently, this lead to the emergence of caretaker managers or property managers and the evolution of the concept of property management. Over the time, the role of property manager increased as real estate owners were not able to handle the properties due to enormous increase in the number of properties.

In 1933, the Institute of Real Estate Management was established in the United States. In addition to it, the government constructing affordable housing with the help of the Public Works Administration demanded for trained housing managers, leading to the emergence of professional property managers.

In India, there is no statutory regulation of property management companies, real estate agents or developers. The Real Estate Regulation and Development Bill was passed in 2013; however, it came in effect in 2016. This bill aims on bringing change in the management of real estate in India.

Property management can broadly be understood as the operation, maintenance and overseeing of real estate and physical property, including residential, commercial and real estate. It is the management of personal property, equipment, tools and other physical capital assets used to repair and maintain the end item derivable.

Property management involves activities such as processes of real estate, system and manpower required to manage the lifecycle of property. It also includes tenant placement, maintenance and repairs, and the ongoing administration of real property. The scope of property management changes in accordance with the size of the holdings to be managed. Entry-level position carries the title of on-site manager or site manager.

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1.4.1 Duties of a Property Manager

A property manager is the person who takes care of the property and looks after the maintenance and tenant management of real estate property. A property manager should possess the following qualities:

1. Responsive and reliable communication;
2. Ability to understand consumer psychology;
3. A focused mind;
4. A good sense of organising the property; and
5. Ability to understand the difference between a minor maintenance issue and emergency.

The property manager is responsible and accountable to the property owner and the tenant, and on therefore, holds certain duties discussed below.

1. **Finding new tenants:** The foremost responsibility of a property manager is to find tenants for the property. Real estate owners hire a property manager for properties that are not managed by property owners; the property manager finds a tenant for the said property and enables the source of income for the property owners. Tenants are the most important source of income in property management.
2. **Tenant Screening:** Tenant screening is also a very important stage as it ensures the safety of property. The property manager has to verify the tenant's personal profile, work profile and their criminal records. This regulation provides proper verification of the tenant profile and their native place.
3. **Handling Complaints**: It is the duty of a property manager to handle the complaints of tenants and provide them with proper incentives. A property manager must handle complaints related to poor facilities at the property, regarding the society in which the property is located and also ensure that the tenants are provided with liveable condition is provided to the tenant.
4. **Coordinating Tenant Turnover**: The ability of property manager is judged by the satisfaction of the tenant. Tenant turnover is the term used for the number of tenants left and stayed in the property. A high tenant turnover depicts the lack of proper management by the property owner and manager, while a low turnover shows high satisfaction level of tenants in the facilities and management of property.
5. **Setting, Collecting and Adjusting Rents**: A property manager's duties also include the process of rent setting. The manager needs to assess the property and set its rent according to the assessment value

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of the property. Moreover, the duty of timely rent collection also lies in the hand of property manager once the tenant has been allotted the property. The manager is also responsible for solving rent-related grievances.

6. **Property Maintenance**: A property manager is responsible for the repair and maintenance of the property. It is the duty of the manager to take care of the necessary repairs and renovation of the property. He/she needs to assure that the property provided is facilitated with proper sanitation, ventilation and proper space. If the property is being lent and if the tenant faces any problem then it is the duty of the estate manager to solve the issue as soon as possible.
7. **Security of Property**: The owner handovers the property to the property manager and the manager is responsible for the security issues related to the property. He/she needs to take proper security measures to assure tenant's safety. The manager only selects the tenant and they need to take care of the past records of the tenant and also assure safety of property from tenant too.
8. **Overall Supervision of Property**: The manager is responsible for the overall supervision of the property as well. It is the duty of manager to look after the tenants, their requirements, security measures, keeping the property up to date and also frequently looking after the property's repair and maintenance work.
9. **Financial Management:** Finance is the most important aspect of any work. The property manager's financial management role starts from analysing and establishing the right rental rates; calculating costs, depreciation, and taxes; and determining realistic profit goals and a budget to achieve them. They collect rents and pay invoices, monitor variances and take corrective action to get the budget back on track.
10. **Keep update with the Property Laws**: Property managers should have in-depth knowledge of property–tenant laws in terms of screening tenants, handling security deposits, lease terminations, and evictions, as well as compliance with property safety standards.

Check Your Progress

8. When was the Real Estate Regulation and Development Bill passed in India?
9. Define property management.
10. What are the qualities of a property manager?

1.5 MANAGEMENT AS PROFESSION

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In the words of Hodge and Johnson, "Profession is a vocation requiring some significant body of knowledge that is applied with high degree of consistency in the service of some relevant segment of society."

A.S. Horn has defined profession as an "occupation especially on requiring advanced education and special training."

According to Prof. Dalton E. McFarland, the criteria or special attributes in a profession are "existence of a body of specialised knowledge or techniques, formalised method of acquiring training and experience, the establishment of representative organization with professionalism as its goal, the formation of ethical codes for the guidance of conduct, the charging of fees, based on services, but with due regard for the priority of service over the desire for monetary reward."

According to the above definition, the features of management as a profession can be concluded as:

1. **Well Defined Body of Knowledge:** Management like any other professions has its own body of knowledge. There are certain principles, laws and methods discovered under management. Every manager of a successful organization has to follow its existing theories and principles. There are big authored books of management that mention certain principles, theories and laws, which every manager has to follow for running a successful organization.
2. **Existence of Ethical Value**: Every business organization has to follow certain business ethics to survive in the society. The concept of corporate social responsibilities has taken hike and every business is a part of society, which is solely responsible for the survival and growth of the business. Every business organization also has some social responsibilities and follows a mandatory ethical code of conduct.
3. **Presence of Professional Associations**: Like every other profession, management also has its own professional association i.e., All India Management Association (AIMA). AIMA is an apex body of the management profession in India. The association works for the enhancement of management techniques, capabilities and also works as the centre of solving management issues.

A profession has two more features:

- **Restricted Entry:** Professions such as CA, lawyers and doctors need a specialised knowledge and certification before entering into the profession. However, there is no compulsion of acquiring a professional certificate for management. There is no restriction on the entry of manual power in a business organization

- **Service Motive:** Many professional organizations run their business with the sole objective of providing services to the people. The management works for earning profit and earning high amount of profits. This feature also cannot be treated as the features of management as a profession.

Therefore, it can be said that management can be a profession partially. As management complements some features of profession i.e., the body of knowledge, ethical values and a professional association.

1.5.1 Property Management as a Profession

A professional property manager plays an important role in property management. He/she is expected to be efficient and well-versed with the government's rules and regulations related to property.

A professional property manager plays the following roles in property management:

1. **Finding Suitable Tenan**t: It is the most important role of a professional property manager. He/she should be aware of the suitable tenants for the property and must know how to select them as they are aware of the tenant psychology.
2. **Proper Screening of Tenants**: A professional property manager does proper screening of tenants by doing checks on their background, marital status, employment status and other income status. The manager follows a proper process of screening before allotting them the space.
3. **Property Advertisement**: Efficient advertisement of the property is a very important element in today's competitive world. A professional property manager is aware of all the suitable methods of advertisement and selects the best way of promotion for the property. The property manager follows an effective strategy, which helps in frequent possession of the property by the user.
4. **Rent Collection**: When the property is managed by professional property management then rent collection is the duty of the manager. The property manager also sets the rent according to the property valuation and guidelines.
5. **Regular Maintenance and Repairs**: The property manager takes care of the property, acting as a caretaker of the property. He/she is responsible for the maintenance of the property. He is charged with doing regular repairing work and keeping it up to date. He/she takes care of all the facilities at property, such as water supply, electricity, sanitation and ventilation.
6. **Tenant Retention**: Tenant retention refers to longer stay of tenants at the property. A better tenant turnover ensures better goodwill of the

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property in market. A property manager strategies for the retention of tenants with them. They practice such activities so that the existing tenants do not shift their mind towards any other property.

7. **Familiarity with Legal Obligations:** Most importantly, a professional property manager is well aware of the rules and regulations and government laws governing the properties in the country. They follow the rules and regulations, which is sometimes impossible for the property owner to follow.

1.6 GROWTH OF PROFESSIONALISM IN PROPERTY MANAGEMENT

For the past few years, real estate business has become a separate profession to be practiced. Rise in property investment has led to single owners holding multiple properties. The increasing migration of people from one place to another has increased the demand for rental properties. Therefore, property owners are inclined towards hiring professional property managers for effective management of their property. Property management has also seen a rise of professionalism as there are certain rules and regulations to be followed. Many countries' government have established governing bodies to regulate property management. The field of property management has also started adopting the principles of management. There are many courses that offer certification in property management. Many companies are engaged in the business of property trading. The government has formed certain acts that regulate the legibility of property business. Professional property management enables many benefits like easy search of tenants. The tenants' rights and duties are also known to property managers and they also assure the security of property of owners. Property management has many financial aspects and there is inclusion of many policies that are necessary to be followed. Hence, from these points it is concluded that there is growth of professionalism in property management.

Check Your Progress

11. What are the functions of the AIMA?
12. What has led to the emergence of property management as a profession?

1.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Real property can be broadly defined as land and anything growing on or affixed to or built upon the land.

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2. A real property owner has the following rights:
   (a) Right of Possession Control
   (b) Exclusion
   (c) Enjoyment
   (d) Disposition
3. A flat is a single-family dwelling in an apartment, while an apartment is a multi-storey building that contains a number of flats with different sizes i.e., large, medium and small.
4. Residential property can be defined as any property that any municipality or local authority has allotted for single-family homes, apartments, cooperatives, townhouses and any other place where people live. Any building that is used for suitable use as a dwelling or is in the process of being constructed is a residential property.
5. The different types of real properties are
   (a) Residential
   (b) Commercial
   (c) Industrial
   (d) Special Purpose
6. Some types of commercial properties include offices, retail buildings, hotels and industrial buildings.
7. Special purpose properties can be defined as properties appropriate for one type of use or limited use; they cannot be used for any other purpose other than for which they are constructed. Some examples of special purpose buildings include temples, mosques, church, theatre, school or any other public utility building.
8. The Real Estate Regulation and Development Bill was passed in 2013; however, it came in effect in 2016. This bill aims on bringing change in the management of real estate in India.
9. Property management can be defined as the operation, maintenance and overseeing of real estate and physical property, including residential, commercial and real estate.
10. A property manager should possess the following qualities:
   (a) Responsive and reliable communication;
   (b) Ability to understand consumer psychology;
   (c) A focused mind;
   (d) A good sense of organising the property; and
   (e) Ability to understand the difference between a minor maintenance issue and emergency

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11. The All India Management Association (AIMA) is an apex body of the management profession in India. The association works for the enhancement of management techniques, capabilities and also works as the centre of solving management issues.
12. Rise in property investment has led to single owners holding multiple properties. The increasing migration of people from one place to another has increased the demand for rental properties. This has lead property owners to hire professional property managers for effective management of their property. Property management has also seen a rise of professionalism as there are certain rules and regulations to be followed.

1.8 SUMMARY

- Real property can be considered as any immovable property composed of any designated position of land and anything permanently placed on or under it. The components on the surface of earth or under the surface i.e., natural resources or human made structures are included in the definition of real property.
- Examples of real property include buildings, ponds, canals, roads and machinery.
- A person acquiring a real property or any form of real estate has the following rights: Right of Possession Control, Exclusion, Enjoyment and Disposition.
- The part of real property under the surface includes oil, gases and minerals found under the land.
- Real property cannot be transferred physically unlike personal property, which can be moved or transferred easily.
- Real property can be classified into four types: Residential, Industrial, Commercial and Special Purpose.
- Residential property can be defined as any property that any municipality or local authority has allotted for single-family homes, apartments, cooperatives, townhouses and any other place where people live.
- Any building that is used for suitable use as a dwelling or is in the process of being constructed is a residential property.
- Different types of residential properties include flats or apartments, plots or lands, townships, villas and independent bungalows.
- Industrial property is used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on a large scale.
- Different types for industrial properties include heavy industrial buildings, telecom centres, warehouses, cold-storage buildings, flex buildings and R&D setup.

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- Commercial properties are used for business activities. Different types of commercial properties include malls, grocery stores, office buildings and manufacturing shops. a commercial property is established according to the success rate of business activities in that region.
- Special purpose properties are appropriate for one type of use or limited use. They have unique designs and layouts. The designs are according to the usage of the property.
- These types of building cannot be used for any other purpose other than for which they are constructed. Special purpose buildings include temples, mosques, church, theatre, school or any other public utility building.
- Their market is also limited due to their specialised nature. Such buildings are known as special design property.
- The concept of property management and the role and responsibilities of property manager evolved during the time of urbanisation and the increasing demand of rental properties.
- In 1933, the Institute of Real Estate Management was established in the United States. In addition to it, the government constructing affordable housing with the help of the Public Works Administration demanded for trained housing managers, leading to the emergence of professional property managers.
- In India, the Real Estate Regulation and Development Bill was passed in 2013; however, it came in effect in 2016. This bill aims on bringing change in the management of real estate in India.
- Property management can broadly be understood as the operation, maintenance and overseeing of real estate and physical property, including residential, commercial and real estate.
- It is the management of personal property, equipment, tools and other physical capital assets and used to repair and maintain the end item derivable.
- It involves activities such as processes of real estate, system and manpower required to manage the lifecycle of property. It also includes tenant placement, maintenance and repairs, and the ongoing administration of real property.
- A property manager is the person who takes care of the property and looks after the maintenance and tenant management of real estate property.
- A property manager should possess the following qualities: Responsive and reliable communication; ability to understand consumer psychology; a focused mind; a good sense of organising the property; and ability to understand the difference between a minor maintenance issue and emergency.
- A property manager's duties include finding new tenants, tenant screening, handling complaints, setting and collecting rent, and property management.

- Property managers should have in-depth knowledge of property–tenant laws in terms of screening tenants, handling security deposits, lease terminations, and evictions, as well as compliance with property safety standards.
- Management like any other professions has its own body of knowledge. There are certain principles, laws and methods discovered under management.
- Like every other profession, management also has its own professional association i.e., All India Management Association (AIMA). AIMA is an apex body of the management profession in India.
- A professional property manager plays an important role in property management. He/she is expected to be efficient and well-versed with the government's rules and regulations related to property.
- Some other roles of a property manager are property advertisement, regular maintenance of the property and tenant retention.
- For the past few years, real estate business has become a separate profession to be practiced. Rise in property investment has led to single owners holding multiple properties.
- Property management has also seen a rise of professionalism as there are certain rules and regulations to be followed. Many countries' government have established governing bodies to regulate property management. The field of property management has also started adopting the principles of management.
- Rise in property investment has led to single owners holding multiple properties. The increasing migration of people from one place to another has increased the demand for rental properties. Therefore, property owners are inclined towards hiring professional property managers for effective management of their property.
- The field of property management has also started adopting the principles of management. There are many courses that offer certification in property management.
- Professional property management enables many benefits like easy search of tenants. The tenants' rights and duties are also known to property managers and they also assure the security of property of owners.

1.9 KEY WORDS

- **Real Property:** Real property is the land, everything that is permanently attached to the land, and all of the rights of ownership, including the right to possess, sell, lease, and enjoy the land.

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- **Plot:** A plot is a tract or parcel of land owned or meant to be owned by some owner(s). A plot may also be defined as a small area of land that is empty except for a metalled road surface or similar improvement.
- **Special Purpose Property:** A special purpose property is a facility that is not easily converted to other uses, and where the business operation is integrally tied to the real property value and to the physical location.
- **Tenant:** A tenant is a person who occupies the property of another person by signing a lease or rental agreement. Even though tenants do not own the property, by signing a rental or lease agreement, they have certain rights over the property they occupy.
- **Landlord:** A landlord is the owner of a house, apartment, condominium, land or real estate which is rented or leased to an individual or business, who is called a tenant. When a juristic person is in this position, the term landlord is used. Other terms include lessor and owner.
- **Property Management:** Property management is the overseeing of residential, commercial and/or industrial real estate, including apartments, detached houses, condominium units, and shopping centers. It typically involves the managing of property that is owned by another party or entity.

1.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Briefly discuss what is meant by property management.
2. What are the duties of a property manager?
3. What do you understand by the term 'tenant screening'?
4. Why is it important for a property manager to be aware of property laws?

Long-Answer Questions

1. Explain the concept of real property.
2. Discuss the different types of commercial properties.
3. Discuss the duties of a property manager in detail.
4. Analyse the growth of professionalism in property management.
5. Examine the evolution of property management as a profession.

1.11 FURTHER READINGS

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NOTES

UNIT 2 CHARACTERISTICS OF PROPERTY AND PROPERTY USER

Structure

2.0 INTRODUCTION

This unit discusses property, and how properties can be characterised into categories. It also examines the relationship between property management and users and the stakeholders. The unit discusses in detail the process of property valuation, and in doing so analyses physical valuation or appraisal of property and financial assessment of a property. The unit also focuses on the concept of record keeping in property management and its benefits.

2.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the different characteristics of a property
- Define property user
- Examine the methods of physical and financial valuation of property
- Understand the relationship between property managers and stakeholders and users
- Analyse the benefits of good record keeping in terms of property management

2.2 UNDERSTANDING CHARACTERISTICS OF PROPERTY

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According to Morris Ginsberg, "Property may be described as the set of rights and obligations which define the relations between individuals or groups in respect of their control over material things (or persons treated as things). The essential point in the notion of property is that there is a recognised right of control over things vested in a particular person or persons, and within various limits, excluding interference by others. By saying that there is a recognised right, we mean that there are regular sanctions attached to it, that is, approved methods of dealing with infringements. The amount and nature of the control with which owners are endowed varies considerably in different legal systems, and there is not always precise correspondence between legal theory and economic usage".

The characteristics of a property are discussed in the following paragraphs:

1. **Durability:** A property or any real estate is a durable property, which lasts for a long time. A real estate property once constructed is maintained for years. The lands are not destructible; they are considered as stock/flow market in the fund flow analysis. A vast majority of building supplies comprise stock of existing buildings, while a small proportion comprises flow of new development.
2. **Heterogeneity**: Every building is different in design, location, size and financing. This makes pricing difficult, increases search costs, creates information asymmetry, and restricts substitutability.
3. **High Cost**: The buying and selling of property involves very high cost from the usual costing of buying and selling of other items. The costs include search costs, real estate fees, moving costs, legal fees, land transfer taxes and deed registration fees. Transaction costs for the seller is between 1.5% and 6% of the purchase price. In some European countries, transaction costs for both buyer and seller can range between 15% and 20%.
4. **Long-time Delays:** Real property takes time to develop. Its development process includes design, finance, structuring and construction, and possession of the property. It has low rate of increase in demand.
5. **Investment Good and Consumption Good:** A real estate property is considered both an investment and consumption good. The property can be classified as residential, commercial, industrial or special purpose. The classification of property as investment and consumption is based on its end use. People purchase the residential property for the use of their own or to further lent it. So when it is used by the purchaser itself, it is consumption good; however, if it is used as a rental place then it is an investment good.

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6. **Immobility:** A property is not movable. It is fixed and cannot be moved from one place to another. Only the possession rights are shifted from one person to other.

Check Your Progress

1. List two characteristics of real property.
2. What do you understand by heterogeneity of property?

2.3 GOOD RECORD KEEPING

A proper file management is an important task of management. It can help the owner and property manager in audit, lease, housing claims and legal disputes. Real estate managers also follow certain federal and state guidelines for good record keeping, what files are to be kept, how they are to be maintained and for how much time. The length of time a document should be kept depends upon the respective law of limitations for any type of case that may bring a potential cause of action.

Essentials to be kept in mind for good record keeping are discussed below:

1. **Software Package:** A good software helps a lot in maintaining the records and efficiently executing the file work. The use of software saves time, and is more feasible. If any company has a huge amount of work, then it is best for them to use a software to maintain their records. The company should use an off-the-shelf software. They are standardised software for mass and can be used in a generalised way. Some off-the-shelf software are Enterprise Resource Planning (ERP) packages, Customer Relationship Management (CRM) packages, Point-of-Sale (PoS) packages. The firm should also ensure security from hackers as it is the biggest drawback of going digital and there is an increase in cases of cyber crimes.
2. **Cloud-Based Storage**: Cloud storage is a cloud-computing model that stores data on the internet through a cloud-computing provider who manages and operates data storage as a service. It is delivered on demand with just-in-time capacity and costs, and eliminates buying and managing your own data storage infrastructure. This storage option offers agility, global scale, and durability with "anytime, anywhere" data access.
3. **Maintaining Separate Files:** A property manager needs to maintain records of multiple things, so it should be kept in mind that there should be maintenance of separate files for each of the group of accounts like; tenant files, owner files, vendor files, financial records and legal documents. Each file has its own necessary documents to be contained. A tenant file should contain rental application, screening records, lease

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agreement, security deposits, move-in and -out inspection work file, rent payment records, and any other sort of agreement signed by the tenants. The owners file contains owner-management record, requests and approval for property maintenance, details about how and when they were handled, management fee payment records, owner rent payments and payments using owner funds, all emails and correspondence with owners. The files should not be mixed.

4. **Encrypting Tenant Information**: All tenant records should be kept fully confidential by the management from external clients. Only the property owner should have the tenants' information apart from the management company.
5. **Transaction Coordination**: The company has to appoint a separate employee or expert to maintain the record of each and every transaction so that the manager does not need to be involved in the record maintenance work and can concentrate on other field work. The benefit of appointing a transaction coordinator is that he/she can coordinate efficiently on the file work on time.

Check Your Progress

3. What is cloud storage?
4. What is the role of a transaction coordinator in real property management?

2.4 PHYSICAL APPRAISAL OF PROPERTY

Property appraisal or valuation is an activity to calculate the current value of a residential or a commercial property. The physical appraisal of a property is done to check its land and amenities value.

The different types of property value are discussed as follows:

1. **Investment Value:** Investment value is calculated when the property is being purchased for investment purposes. Investors check many factors before investing in a property. Some of these factors are availability of finance and terms and conditions associated with the finance, and tax rate of the property. The different criterions for valuation of property for investment depend upon the investment use.
2. **Insured Value:** Insurance companies take out the insured value of the damaged property and determine the insurance coverage value that the owner would get. In insured value, the value of land on which the damaged property exits is deducted from the overall value of property.
3. **Value-in-use**: It is used for commercial properties, and its valuation is determined by the current use of property.

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4. **Assessed Value**: It is calculated by the municipalities of the region to determine the tax rates of the property.
5. **Mortgage Value**: The mortgage value of a property changes when the owner takes any new mortgage. There is no change in the property mortgage value if there is any increase or decrease in the value of property.

Elements of Physical Appraisal of Property

1. **Plot Size**: The plot size determines the base of the property. It helps in designing the floor plan. The plot size value is calculated according to the per square feet value of the property. The bigger size plot values more and small size plot less.
2. **Floor Plan:** A floor plan comprises the design and structure of a property. It includes the number of rooms, number of floors, parking area, kitchen area, bathroom area, etc. The valuation of a property includes the elements of its floor plan.
3. **Amenities:** Amenities are the facilities that the owner provides with the property. The number of amenities provided is a major factor in deciding the rental rate or purchase rate of the property. Such amenities include water facility, electricity supply, furniture and availability of other luxurious facilities.
4. **Supply and Demand in a Given Region**: It signifies the demand of the property in that region and how much supply meets the demand. In other words, it is the want of people of purchasing property in the particular region and how many properties are available according to the need of the purchaser. If there is a high demand of that property in the region, then the value of property will be high but if the supply of property is sufficient in number so that it can meet the requirement then the value of property will be less.
5. **Utility**: Utility means the use of property by the user. If the use of property is at its fullest, then the value of property will be high and if the there is no whole use of property then the value of property will be less.
6. **Transferability**: Transferability means that there is easy transfer of ownership rights of property, the property is free from any legal cases and there is no problem in transferring of ownership rights.

2.4.1 Proprietary Features

Proprietary means the property owned by individual or the company. The proprietary can be of software, technology or real estate. In other words, proprietary can refer to a copyright or trademark. It describes all the rights that the owner of property can exercise. Proprietary objects are items that are manufactured and marketed under an exclusive right. Proprietary includes only

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tangible things, commodity which can be touched and seen and also can be moved. The proprietary interest can be defined in terms of possession and ownership of property. The property can also be related to the relationship with a thing of a person. The property interest connects to the person self identification. Proprietary provides an identity to the owner of the property.

Check Your Progress

5. Name the different types of property value.
6. How does supply and demand in a given region affect the physical appraisal of a real property?

2.5 FINANCIAL APPRAISAL AND EVALUATION

Financial valuation of real estate is based on the strategies similar to the equity analysis of any company. The financial valuation of a property is based absolute basis of valuation and relative basis of valuation. There are three methods of financial appraisal of a real property: Discounting Future Net Operating Income (NOI), Capitalisation Rate and Gross Income Multiplier. The capitalisation rate and discounting future NOI is based on the absolute method and gross income multiplier is based on the relative method.

1. **Discounting Future NOI:** NOI stands for Net Operating Income. It shows the earnings that the property generates after factorisation of operating expenses before deduction of taxes and interest payments. The formula for calculating the market value under this method is:

   Market Value = NOI/r-g

   NOI/R

   where,

   NOI= Net Operating Income

   r= required rate of return on real estate assets

   g= growth rate of NOI

   R= Capitalisation Rate

   Under this method, the expected value of the rental property can be calculated based on the comparable properties nearby. NOI calculation of real estate is similar to the earnings before interest, taxes, depreciation and amortisation. Discounting NOI from a real estate investment by the Cap rate is similar to discounting a future dividend stream by the appropriate required rate of return adjusted for dividend growth.

2. **Capitalisation Rate**: It is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It

determines the net value or the present value of property. Rate applied to NOI determines the present value of the property.

Capitalisation rate is also called Cap Rate. The formula for finding the present value of a property with the help of NOI and Cap Rate is:

Market Value = NOI/Cap Rate

The methods to find the Cap Rate are discussed below:

(a) **Build-Up Method:** It defines the accurate measurement of individual component of property to determine the discount rate.

The formula for finding Cap Rate by this method is:

Cap Rate = Interest Rate + Appropriate Liquidity Premium

Or

Interest Rate + Recapture Premium

Or

Interest Rate + Risk Premium

(b) **Market Extraction Method**: This method assumes that there is current and readily available NOI, and the sales price information is also known by comparing the similar income generating properties. It makes the direct income capitalisation more meaningful.

(c) **The Band of Investment Method:** In this method, the cap rate is computed using individual rate of interest for properties used for both debt and equity financing.

3. **Gross Income Multiplier:** It is the relative valuation method, which is based on the assumption that the valuation of property in the same area will be valuated proportionally to the gross income generated by that property.

Check Your Progress

7. What are the three methods of financial appraisal of a real property?
8. Define capitalisation rate.
9. What are the three methods to find the cap rate of a real property?

2.6 DEFINING PROPERTY USER

A property user can be defined as the stakeholder or the user of the property. A property user can be differentiated as one who invests in or builds the property, and the other who is the final user of the property.

Stakeholders

1. **Investors:** An investor is a person, an individual or a company that invests capital in a property. They can be either the owner of the property or financers of the property.

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2. **Tenants:** A tenant is a person who takes the property on a rental basis. They have to pay rent on a regular basis. They hold the property temporarily for some time and they do not have rights to make any changes in the property.
3. **Employees:** These are the people working in the property or the firm. They play a huge role in getting the tenants and also look after the maintenance of the property.
4. **Property Management Firms:** They are the companies that manage the property on the behalf of the owner; these firms help owner in generating income from the property.
5. **Supply Chain Vendors:** These vendors supply the necessities of property. They can be plumbers, carpenters, electricians and also material and hardware suppliers.

Users

1. **Clients:** Clients are represented by the agents. An agent is a person who represents and negotiates with other parties in a deal.
2. **Customers/Consumers:** In real estate, customers are provided services by real estate professionals.

Check Your Progress

10. What do you understand by the term 'property user'?
11. What are property management firms?

2.7 SOCIETY AND STAKEHOLDER RELATIONSHIPS

The development of communally valuable relationships promotes growth for the investor and the property management company that he or she hires. Subsequently, the importance of relationships in the property management industry cannot be exaggerated. A good property management company can assist in all the unkind issues and help solve problems without harming the relationships that have been built with tenants. Conversely, property management companies need to ensure that they stay on positive terms with their client investors, as well as the tenants who rent from them.

Another key point to consider is that the relationships that are established between clients and their property management companies are going to vary depending on client expectations. However, there are a number of basic things that property management companies must focus on, such as being practical, keeping client investors and tenants happy, and maintaining a positive cash flow. As your investment portfolio continues to grow, the need for having a reputable property management company on your side becomes even more important for maintaining that growth.

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2.7.1 Management Relationship with Stakeholders

Stakeholders play vital role in the real estate management and the relationship with each stakeholder is important. Stakeholders include investors, employees, tenants, property management teams and supply chain vendors.

Investors are an important stakeholder group. The investment community has been heightened in recent research studies in decision-making process in the real estates. Investors cover a broad range of topics across the ESG spectrum like energy, water, waste, etc.

Employees, tenants and property management teams also play an important role in the stakeholder group. Employees are essential to an organization's performance and effective involvement of them can encourage recruitment of employees, talent retention and work–life balance.

Tenant's engagement helps in ensuring the satisfaction of current tenants, improving retention rates and also attracting prospective tenants.

Property management teams can be internal or third party; they drive relationship between real estate owners and tenants, and oversee the implementation of sustainable best practices.

Scarcity in relationship with the stakeholders can result into:

(a) Conflicts with the local community
(b) Complicated decision-making process
(c) Time delays and cost overruns
(d) Negative publicity for the companies involved

Effective Ways to Manage Relationship with Stakeholders

1. **Analyse Stakeholders' Problems and Needs**: The first step is to analyse the stakeholders or an assessment of the property's key contributors, and how the project will affect their problems and needs. It involves the analysis of their interests and individual characteristics, defining their role and participation, and determining the factors that motivate them.
2. **Assessment of Influence**: The influence of a stakeholder plays an important role in the decision-making process and how they are included in decision making. Every stakeholder influences differently in the organization and the proper assessment is required for the proper management of the business. The more influential a stakeholder is, the more a project manager will need their support.
3. **Understand their Expectations:** It is important to nail down the stakeholders' specific expectations. It involves asking for clarification when needed to be sure they are completely understood.
4. **Stakeholder Engagement**: This involves reporting to the stakeholders, asking for their input, getting to know them better by scheduling time for

coffee, lunch, or quick meetings. It also involves measuring each stakeholder's capacity to participate and honour time constraints.

5. **Keep Stakeholder Informed**: It is also important to send regular status updates. Daily updates may be too much; however, monthly is not enough. One update per week is usually about right. Managers are required to hold project meetings as required; however, too much time should not pass between meetings. Stakeholders' questions and emails must be promptly. answered Regular communication is always appreciated and may even soften the blow when bad news is to be shared.

2.7.2 Management Relationship with User Community

The real estate user community is categorised into real estate client and real estate customers. The relationship with each is different and each of them plays a vital role in real estate management.

1. **Real Estate Clients**: Clients are represented by their agents. An agent is a person who represents and negotiates with other parties in a deal. When a real estate firm represents as an agent, it needs to be loyal and also work according to the needs of their clients. In a real estate transaction, when a real estate professional is employed as an agent, they are **obliged** to negotiate the best price and terms for their client, and bring all their knowledge and skill to bare for their client. Moreover, a client relationship **must be formalised via a signed agency agreement** whether during buying or selling real estate.
2. **Real Estate Customers**: In real estate, customers are provided with services by real estate professionals. Customers cannot be termed as agents. The actual services that a customer receives from a real estate professional depends on the arrangement that is established between the customer and the licensee.

Check Your Progress

12. Why is it important for a real estate management company to maintain a good relationship with the stakeholders?
13. What is stakeholder engagement?

2.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The characteristics of a real property are
   (a) It takes time to develop. Its development process includes design, finance, structuring and construction, and possession of the property.

(b) A property is not movable. It is fixed and cannot be moved from one place to another. Only the possession rights are shifted from one person to other.

2. By Leterogenity of property we mean that every building is different in design, location, size and financing. This makes pricing difficult, increases search costs, creates information asymmetry, and restricts substitutability.
3. Cloud storage is a cloud-computing model that stores data on the internet through a cloud-computing provider who manages and operates data storage as a service. It is delivered on demand with just-in-time capacity and costs, and eliminates buying and managing your own data storage infrastructure.
4. The company has to appoint a separate employee or expert to maintain the record of each and every transaction so that the manager does not need to be involved in the record maintenance work and can concentrate on other field work. The benefit of appointing a transaction coordinator is that he/she can coordinate efficiently on the file work on time.
5. The different types of property value are:
   (a) Investment Value
   (b) Insured Value
   (c) Value-in-use
   (d) Assured value
   (e) Mortgage value
6. The supply and demand in a given region signifies the demand of the property in that region and how much supply meets the demand. In other words, it is the want of people of purchasing property in the particular region and how many properties are available according to the need of the purchaser. If there is a high demand of that property in the region, then the value of property will be high but if the supply of property is sufficient in number so that it can meet the requirement then the value of property will be less.
7. The three methods of financial appraisal of the property are Discounting Future Net Operating Income (NOI), Capitalisation Rate and Gross Income Multiplier.
8. Capitalisation rate is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It determines the net value or the present value of property.
9. The three methods to find the cap rate of a real property are:
   (a) The build-up method
   (b) The market extraction method
   (c) The band of investment method

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10. A property user can be defined as the stakeholder or the user of the property. There are two categories of property users, namely stakeholders and users.
11. Property management firms are the companies that manage the property on the behalf of the owner; these firms help owner in generating income from the property.
12. Stakeholders play vital role in the real estate management and the relationship with each stakeholder is important. Scarcity in relationship with the stakeholders can result into:
    (a) Conflicts with the local community
    (b) Complicated decision-making process
    (c) Time delays and cost overruns
    (d) Negative publicity for the companies involved
13. Stakeholder engagement involves reporting to the stakeholders, asking for their input, getting to know them better by scheduling time for coffee, lunch, or quick meetings. It also involves measuring each stakeholder's capacity to participate and honour time constraints.

2.9 SUMMARY

- A property or any real estate is a durable property, which lasts for a long time.
- The buying and selling of property involves very high cost from the usual costing of buying and selling of other items. The costs include search costs, real estate fees, moving costs, legal fees, land transfer taxes and deed registration fees.
- A real estate property is considered both an investment and consumption good. The property can be classified as residential, commercial, industrial or special purpose.
- A property is not movable. It is fixed and cannot be moved from one place to another.
- A proper file management can help the owner and property manager in audit, lease, housing claims and legal disputes.
- A proper file management is an important task of management. It can help the owner and property manager in audit, lease, housing claims and legal disputes.
- Real estate managers also follow certain federal and state guidelines for good record keeping, what files are to be kept, how they are to be maintained and for how much time.
- Essentials to be kept in mind for good record keeping are using a good software package, using a cloud-based storage, maintaining separate files, encrypting tenant information and appointing a transaction coordinator.

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- Property appraisal or valuation is an activity to calculate the current value of a residential or a commercial property.
- The different types of property value are investment value, insured value, value-in-use, assured value and mortgage value.
- The mortgage value of a property changes when the owner takes any new mortgage.
- The elements of the physical appraisal of a property include plot size, floor plan, amenities, supply and demand, utility and transferability.
- The three methods of financial appraisal of the property are Discounting Future Net Operating Income (NOI), Capitalisation Rate and Gross Income Multiplier.
- NOI stands for Net Operating Income. It shows the earnings that the property generates after factorisation of operating expenses before deduction of taxes and interest payments.
- Capitalisation rate is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It determines the net value or the present value of property.
- Gross income multiplier is the relative valuation method for property valuation.
- A property user can be defined as the stakeholder or the user of the property.
- A property user can be defined as the stakeholder or the user of the property. There are two categories of property users, namely stakeholders and users.
- Stakeholders play vital role in the real estate management and the relationship with each stakeholder is important. Stakeholders include investors, employees, tenants, property management teams and supply chain vendors.
- Property management teams can be internal or third party; they drive relationship between real estate owners and tenants, and oversee the implementation of sustainable best practices.
- The real estate user community is categorised into real estate client and real estate customers. The relationship with each is different and each of them plays a vital role in real estate management.

2.10 KEY WORDS

- **Point-of-Sale Software:** A Point-of-Sale (POS) software is what brick-and-mortar retailers use to conduct sales. It is sometimes a cash register, computer, or even an iPad where cashiers input products, tally the cost, and conduct the financial transaction.
- **Cloud Storage:** Cloud storage is a cloud computing model that stores data on the internet through a cloud computing provider who manages and operates data storage as a service. It is delivered on demand with just-in-

time capacity and costs, and eliminates buying and managing your own data storage infrastructure.

- **Stakeholder:** A stakeholder is either an individual, group or organization who is impacted by the outcome of a project. They have an interest in the success of the project, and can be within or outside the organization that is sponsoring the project. Stakeholders can have a positive or negative influence on the project.

2.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Define property user.
2. Mention any two basic characteristics of property.
3. Discuss the NOI method of financial appraisal.
4. Who are known as stakeholders of the property?
5. What do you mean by proprietary?

Long-Answer Questions

1. Identify the different characteristics of a property.
2. Explain the key components of physical appraisal of property.
3. Examine the methods of financial appraisal of property in detail.
4. Discuss a property manager's relationship with the stakeholders.
5. 'Property is considered both an investment and a consumption good.' Discuss.

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UNIT 3 SOURCES AND ESSENTIALS WHEN BUYING A PROPERTY

Structure

3.0 INTRODUCTION

This unit discusses the process of fund acquirement for buying a property. In doing so, it identifies various fund sources such as banks, building societies, employers, private mortgages and finance houses. The unit also covers the essentials or necessities required to be checked before buying a property, such as need, hidden costs, insurance of property and taxes levied on the property.

3.1 OBJECTIVES

After going through this unit, you will be able to:

- Identify various sources of funds for buying a property
- Analyse the necessities checked before buying a property

3.2 FUND ACQUIREMENT: DIFFERENT SOURCES FOR BUYING A PROPERTY

Fund acquirement is an important function for buying a property as it is a huge investment. There are different sources of funds for buying a property, which include banks, building societies, client's employer, private mortgage and finance houses.

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3.2.1 Banks

Bank is an apex body that handles the savings of the people; it is established by a group of people or the government. It is a type of financial institution engaged in the business of accepting deposits and providing loans to the people. Banks follow the rules and policies announced by the Reserve Bank of India or in any other country the central bank or federal bank of that country.

Role of Bank in Acquiring a Property

There are total of 14,500 commercial banks that act as the largest financial intermediaries in the financing of real estate. They act as lenders for multiple loans. Banks provide short-term loans, construction loans in particular from 6 months to 3 years. They also provide loans for renovations and repair.

Many commercial banks maintain separate departments for real estate loans and some of them are directly involved through their trust departments, mortgage banking operations and real estate investment trusts.

Some of the different types of property loans available in India are:

(a) **Land Purchase Loan**: It is a loan to buy lands or in order to build a property. It is provided for residential or investment purposes. The loan amount is 85% of the total property value.

(b) **Home Loan:** It is availed when an individual buys a property from a different owner. It is offered by many banks in different forms. The interest rates offered is floating or fixed between the range of 9% and 12%. The loan amount granted is 85% of the total loan demanded.

(c) **House Construction Loan:** This loan is provided by banks to individuals who are looking to construct a house in a plot already co-owned by them. The conditions for this loan are:

1. Land or plot should have been bought within a year.
2. The Borrower has to make a rough estimate of expenses incurred in constructing the house.
3. The cost of plot should not be included in the loan amount, only the estimation for construction of the house is taken into consideration.

The other types of loans provided by the banks include house expansion loan, home improvement loan, home conversion loan and NRI home loan.

Benefits of taking Loan from Banks

1. **Tax Saving**: There are deductions from the taxable income under Sec 24, 80C and 80 EEA of the Income Tax Act. The assessee can claim a deduction of ₹5 Lakhs. It helps in reducing tax liability.
2. **Opportunity to Grow Funds**: There is an opportunity to grow funds in the bank. A good credibility enables an individual to take higher amount loans on stable terms and conditions.

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3. **Liquidity Benefit:** Bank loans can be liquefied at any point of time as the property can be handed over to the bank for the liquidity of the money from the bank.
4. **Due Diligence by Bank:** Banks exercise strict due diligence before financing a project, which reduces risk level to a great extent. They verify the project-related documents, its title and legal clearances before approving the loan on it.

Disadvantages of Taking Loans from Banks

1. The bank loan amount affects the total property cost.
2. It is a long-term commitment as the loans are of very longer duration.
3. The interest rates get fluctuating.

3.2.2 Building Societies

Building societies are financial institutions that provide banking and other financial services to its members. The credit union in the US is owned entirely by its members; it offers mortgages and demand deposit accounts. They are basically cooperative groups run by their members. The main focus of these groups is savings and mortgage lending. Mortgage lending is a debt instrument that a specified real estate property secures in the form of collateral. Building societies is a bank owned by its depositors and borrowers who are called members.

It was started in England in the late 18th century; most of them were voluntarily dissolved when every member owned houses. In mid 1980s, they got the right to conduct banking services other than deposits and loans.

Advantages of Building Societies

1. It is a better option for accounts for doing small savings.
2. They provide superior mortgage and loan rates.
3. They provide online services and good saving rates.
4. They are run democratically.

Disadvantages of Building Societies

1. The members' share is locked into the society.
2. The risk is borne by the members.
3. There is no access to equity capital; only the debt capital is accessible.

3.2.3 Client's Employer

Client's employer refers to taking the loan from the employer for buying the property. The employee takes a loan from his/her employer at some interest rate and the loan recovery is from the salary of the employee in some ratio every month. During tough economic times, some companies utilise the services of loaned employees to control labour costs. In loaned-employee agreements, the company that provides

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the services of a loaned employee is legally responsible for meeting employer-related requirements. The company that purchases the services of a loaned employee is responsible only for paying the costs associated with the employee services received, but cannot be held legally responsible for other expenses normally associated with employment.

3.2.4 Private Mortgage

A private mortgage is a type of mortgage loan whereby funds can be sourced from another person or business rather than borrowing from a bank or other finance provider. It can also be called private money lending. It refers to lending money to a company or individual by a private individual or an organization. While banks are traditional sources of financing for real estate and other purposes, private money is offered by individuals or organizations and may have non-traditional qualifying guidelines. There are higher risks associated with private lending for both the lender and borrowers. There is traditionally less "red tape" and regulation. Private money can be similar to the prevailing rate of interest or it can be very expensive. When there is a higher risk associated with a particular transaction, it is common for a private money lender to charge an interest rate above the going rate.

3.2.5 Finance Houses

A finance company is an organization that makes loans to individuals and businesses. Unlike a bank, a finance company does not receive cash deposits from clients, nor does it provide some other services common to banks, such as checking accounts. Finance companies make a profit from the interest rates (the fees charged for the use of borrowed money) they charge on their loans, which are normally higher than the interest rates that banks charge their clients. Many finance companies lend to clients who cannot obtain loans from banks because of a poor credit history (the record of an individual's payments to the institutions who have loaned him/her money in the past). Some large companies own finance companies that provide clients with loans to purchase goods from the large company. Under this arrangement, the large entity is called the parent company, and the smaller entity is called a subsidiary or a captive finance company.

Check Your Progress

1. What is the role of banks in acquiring property?
2. List any two benefits of taking a loan from a bank.
3. List the advantages of building societies.

3.3 NECESSITIES CHECKED WHEN BUYING A PROPERTY

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Property investments are highly capital intensive, and any mistakes made during the process can cause a great deal of trouble to the buyer. This makes it imperative for a buyer to exercise due caution while examining the property documents. With proper legal advice, scrutiny of documents and verification of relevant information pertaining to the property, the buyer can ensure that the investment brings peace of mind and a sense of security.

The essentials that need to be checked before buying a property are discussed below:

1. **Need:** The first essential to be checked before buying a property is that what the need of that property is. The property use is sub-categorized as follows:
   (a) **Primary Residence:** A primary residence is viewed and priced as the lowest risk factor of property use. There are no adjustments to pricing or rate.
   (b) **Second Home:** A second home is viewed and priced according to the lender. Some will assess the same risk factor as a primary residence while others will factor in a 0.125– 0.5% pricing increase to mitigate the perceived risk. Lenders perceive that the borrower is less likely to value the second home if the borrower was faced with financial difficulties.
   (c) **Non-owner occupied or Investment Property:** A non-owner occupied property is viewed and priced as the highest risk factor of property use. Lenders will factor in a 0.5–2.5% pricing increase to mitigate the perceived risk.

   The type of property needed decides the budget, or rent or other requirements at the property.
2. **Checking hidden costs:** There are certain hidden costs that need to be checked before buying a property. Some of them are:
   (a) **Advance Maintenance Cost:** When signing on the dotted line, the builder may ask to pay a maintenance deposit for a specific period of time, in advance. This could be for a year, two years or even up to 10 years, in some cases.
   (b) **Parking Space:** Depending upon the type of the property, location and other factors, developers can charge anywhere between Rs 1 to 5 lakhs for a parking space. If you need additional space, they will gladly allot you a convenient spot, provided you shell out a few lakhs more.

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(c) **Registration Cost:** Stamp duty usually varies between 7% to 8% of the property value. 1-2% of the property value has to be paid as registration fee to the court. This figure varies with each state. It also includes the fee for the lawyer or notary who will inspect all the necessary paperwork, verify if the developer has the required approvals and have the paperwork in place.

(d) **Interior Design Charges:** Property budget should definitely include an additional interiors cost. This might vary, depending on the type of interiors buyer want for house. Plumbing costs, electrical work, painting charges, new furniture, additional design work and fixtures that need to be installed account for all these and more. Interior design charges could be anywhere starting from 2 lakhs to a blank cheque, depending on the look and the type of the materials you choose.

3. **Insurance:** Property insurance is a broad term for a series of policies that provide either property protection coverage or liability coverage for property owners. Property insurance provides financial reimbursement to the owner or renter of a structure and its contents in case there is damage or theft, and to a person other than the owner or renter if that person is injured on the property. Property insurance can include a number of policies, such as homeowners insurance, renters insurance, flood insurance and earthquake insurance. Personal property is usually covered by a homeowners or renters policy. The exception is personal property that is very high value and expensive, and is usually covered by purchasing an addition to the policy called a "rider." If there is a claim, the property insurance policy will either reimburse the policyholder for the actual value of the damage or the replacement cost to fix the problem.

4. **Taxes:** Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city. In India, it is the owners of the property who are liable for the payment of municipal taxes whereas in countries like the United Kingdom, the occupier is liable. Generally, the property tax is levied on the basis of reasonable rent at which the property might be let from year to year. The reasonable rent can be actual rent if it is found to be fair and reasonable. In the case of un-let properties, the rental value is to be estimated on the basis of letting rates in the locality. In the case of special class of properties, like cinema theatres, it is estimated by adopting the accountancy method under which the rent is a certain percentage of the total average turnover during the year, i.e., actual receipts of the sale of tickets (excluding entertainment duty).

   The following types of properties are liable to be taxed under property tax:

- Residential houses (self-occupied or let out)
- Office buildings
- Factory buildings
- Godowns
- Flats
- Shops

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Check Your Progress

4. List the essentials that need to be checked before buying a property.
5. What categories of properties are liable to be taxed under property tax?

3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Banks provide short-term loans, construction loans in particular from 6 months to 3 years. They also provide loans for renovations and repair. Many commercial banks maintain separate departments for real estate loans and some of them are directly involved through their trust departments, mortgage banking operations and real estate investment trusts.
2. The two benefits of taking a loan from a bank are:
   (a) Tax savings
   (b) Opportunity to grow funds
3. The advantages of building societies are:
   - It is a better option for accounts for doing small savings.
   - They provide superior mortgage and loan rates.
   - They provide online services and good saving rates.
   - They are run democratically.
4. The essentials that need to be checked before buying a property are:
   (a) Need of property
   (b) Checking hidden costs
   (c) Insurance
   (d) Taxes
5. The following types of properties are liable to be taxed under property tax:
   (a) Residential houses (self-occupied or let out)
   (b) Office buildings
   (c) Factory buildings

(d) Godowns
(e) Flats
(f) Shops

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3.5 SUMMARY

- There are different sources of funds for buying a property, which include banks, building societies, client's employer, private mortgage and finance houses.
- Banks provide short-term loans, construction loans in particular from 6 months to 3 years. They also provide loans for renovations and repair.
- Some of the different types of property loans available in India are land purchase loan, home loan and house construction loan.
- Building societies are financial institutions that provide banking and other financial services to its members.
- A private mortgage is a type of mortgage loan whereby funds can be sourced from another person or business rather than borrowing from a bank or other finance provider. It can also be called private money lending. It refers to lending money to a company or individual by a private individual or an organization.
- A finance company is an organization that makes loans to individuals and businesses. Unlike a bank, a finance company does not receive cash deposits from clients, nor does it provide some other services common to banks, such as checking accounts.
- Property investments are highly capital intensive, and any mistakes made during the process can cause a great deal of trouble to the buyer.
- The essentials that need to be checked before buying a property are need of property, checking hidden costs, insurance and taxes.
- A non-owner occupied property is viewed and priced as the highest risk factor of property use.
- Property insurance is a broad term for a series of policies that provide either property protection coverage or liability coverage for property owners.
- It can include a number of policies, such as homeowners insurance, renters insurance, flood insurance and earthquake insurance.
- Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city.

3.6 KEY WORDS

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- **Due diligence:** It refers to an investigation, audit, or review performed to confirm the facts of a matter under consideration. In the financial world, due diligence requires an examination of financial records before entering into a proposed transaction with another party.
- **Liquidity:** It refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price. Cash is the most liquid of assets while tangible items are less liquid.
- **Loan:** The term loan refers to a type of credit vehicle in which a sum of money is lent to another party in exchange for future repayment of the value or principal amount.
- **Mortgage:** It is a legal agreement by which a bank, building society, etc. lends money at interest in exchange for taking title of the debtor's property, with the condition that the conveyance of title becomes void upon the payment of the debt.
- **Demand Deposit Account:** Demand deposits or non-confidential money are funds held in demand accounts in commercial banks. These account balances are usually considered money and form the greater part of the narrowly defined money supply of a country.
- **Property Tax:** A property tax or millage rate is an ad valorem tax on the value of a property, usually levied on real estate. The tax is levied by the governing authority of the jurisdiction in which the property is located. This can be a national government, a federated state, a county or geographical region or a municipality.

3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the different types of loans provided by bank?
2. What is the role of building societies in acquiring properties?
3. What is property insurance?
4. What is property tax?
5. State any two hidden cost associated with property.

Long-Answer Questions

1. Explain the role of a bank in acquiring a property.
2. Discuss the benefits and disadvantages of building societies?

3. Explain the need for buying a property.
4. Discuss the hidden costs associated with the property.
5. Identify and discuss the sources of funds for buying a property.

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3.8 FURTHER READINGS

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UNIT 4 PROPERTY MANAGEMENT: ECONOMICS AND PLANNING

Structure

4.0 INTRODUCTION

The unit concentrates on the relationship between property management and the economics of a country. It discusses the concept of business economy. The unit also includes the process of planning in property management and its different aspects such as market analysis, property analysis and owners objectives. It discusses the concept of property management as a part of a competitive strategy, and the rise of competition in property management.

4.1 OBJECTIVES

After going through this unit, you will be able to:

- Explain the concept of real estate economics
- Understand the importance of planning in property management
- Describe the process of planning in property management
- Examine the competitive aspect of property in economy

4.2 ECONOMICS OF PROPERTY MANAGEMENT

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Managerial economics is defined as the science that studies various economic theories, principles, concepts and techniques. Economics is a study of the economic theories to solve the problems of the management. According to Lord Robbins, "Economics is the science, which studies human behaviour as a relationship between ends and scarce means which have alternative uses."

4.2.1 Business Economy

Business economics is a microeconomic concept, which studies the economic issues of any business in the country. The characteristics of business economy are:

1. **Microeconomic Nature:** Business economy is of microeconomic nature; it studies the individual issues faced by each type of business, rather than economy as a whole. It concentrates only on the business activities running in the country.
2. **Use of Economic Theories:** The economic theories used by business economics include Adam Smith's classical theory of economics, his concept of absolute advantage, the relative theory of David Ricardo and the MM Model. The decision taken by the business organizations related to their economic problems are based on these theories.
3. **Realistic**: Business economics works on the real environment and the study is based on the real situations occurring in business and the assumptions taken while taking the decisions are based on the theories and the principles.
4. **Normative Science:** Business economy follows the normative concept of economics as it does not just identify the problem but also focuses on how to solve the issues, while concentrating on the development of new principles relevant to the present situation.
5. **Science or an Art:** Business economics features both science and art as like science economics has its set of theories, principles and assumptions that play the basis for decision making. Economic problems are identified by deep observations by the economists; therefore, it can be said that business economics is a science. Business economics is also an art as the business environment keeps changing and the problems keeps changing. The economists need to regularly practice the changes in economy to solve these problems.

4.2.2 Real Estate Economy

Real estate economy is application of economic techniques to real estate markets. It studies, explains and predicts pattern of prices, supply and demand of property in the region. It is a part of business economy and has a narrow scope as at present real estate economy is concentrated only on residential properties. The research in real estate economy focuses more on business and structural changes affecting the industry. Real estate economics covers the concept of partial equilibrium analysis, urban economics, spatial economics and extensive research in property economics, surveys and finance.

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Check Your Progress

1. Define managerial economics.
2. What do you understand by real estate economy?

4.3 CONCEPT OF PROPERTY MANAGEMENT PLANNING

Property management planning is the documented work or the blueprint for the way an organization is being run, both day to day and over the long run. The property management planning includes the activities like handling money, dealing with the actual work of organization, addressing the way people in the organization do their job, overall philosophical and intellectual framework.

Need of Management Plan

1. Planning enables clarification of the roles and responsibilities of every person and the resource in the organization.
2. It helps in division of the work in organization in reasonable and feasible way.
3. It increases the accountability, both internally and externally.
4. It ensures that necessary tasks are assigned to the appropriate staff members.
5. It helps in defining organization mission and vision.

4.3.1 Market Analysis

Market analysis is the study of the attractiveness and the dynamics of a special market within a special industry. It helps in SWOT analysis of a company. Market analysis is a documented investigation of a market that helps in studying the planning activities of the particular industry. A good market analysis enables the industries to attract investors, sidestep pitfalls and attract customers. The steps of market analysis in property management are listed below:

1. **Defining Product Property Productivity Analysis:** Under product property productivity analysis, different attributes are defined which are as follows:
   (a) **Physical Attributes:** It includes the physical properties of the property like the plot size, amenities of the property, building constructed on the property, the elevation design and the structural design of property.

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(b) **Legal and Regulatory Attributes:** It includes the laws related to the property, the property registration and the process of transferability of ownership and also the regulations of municipal corporation or any other local regulatory body.

(c) **Location Attributes:** This attribute covers the economic factors of the location and the urban growth structure of the region. Location attribute concentrates on the development of nearby places of the location or the future scope of development.

(d) **Market Attributes:** It covers the marketing mix i.e., price, place, product, promotion and also the competition level of the product property.

2. **Defining User Market Delineation:** After the analysis of product productivity, the user market is described. It includes certain concepts of market like exchange mechanism, which means the tendency of buyer and seller in the market for the exchange of product; it also includes the time and distance concept. This step of market analysis also concentrates on geographic market delineation, which means the description of the geographical area and the range of market covered by the particular industry. The most important fact under this step is to identify the potential user characteristics of the property.

3. **Forecasting Demand Factors**: The factors affecting the demand of the property market are population, income of individual, taste and preference of user, behavioural factor, motivational and psychological factors.

   Population size: Population in the property market are the potential users of the particular property. The more the population size of the region, the more is the demand of the property in that particular region. Highly populated areas have a huge demand of the rental properties and if the demand of property is high then the price of the property is also high as there can be scarcity of properties and the interested users are more. But if the population size is less relevant to the property, then the price will be low.

   Various demand factors are listed below:

   (a) **Individual Income:** A high-income earning person always prefers to purchase a property as an investment or for residential purpose. The level of income decides the type of property an individual prefers.

   (b) **Taste and Preference:** The buying habits of the people of region and the geographical condition of place defines the taste and preference of the consumer of property in property market. The property is used according to the regular nature of preferences made by the people in the particular region.

   (c) **Behavioural and Psychographic Factors:** It is the mental thinking of the property user, and how it defines the property. Psychographic factor is defined by the personality or lifestyle of the user. People with common activities, interests, and opinions are grouped together and given a "lifestyle name."

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The factors affecting the demand help in the demand segmentation of property market. The property market can be segmented through various segments, including demographic, geographic, psychographic and behavioural, and income segmentation.

4. **Analysing Inventory and Forecast Competitive Supply:** After the ascertainment of the demand factors, the supply estimates are analysed. It includes the existing stock of competitive properties i.e., the availability of similar properties nearby and defines the potential competition of the property in the market. The potential competition is identified by factors such as availability of land and cost of land, interest rate on loan granted for the buying of property, material and labour cost accounted on the particular property and the competitive property, and the entry of new properties in the market. The ascertainment of supply rate of property in market helps users and the owners of the property for purchase decision and setting of price of property, respectively.
5. **Analysing the Interaction of Supply and Demand:** The equilibrium point is calculated after the calculation of demand and supply of the property. The real estate market has partial equilibrium stage. Partial equilibrium is the stage of equilibrium, which considers only a part of market. The real estate market still focuses on the residential real estate and the factors affecting demand and supply does not consider the commercial real estate.
6. **Forecasting Subject Capture**: At the end of market analysis, the forecasting of the survival, growth and future expectation from property is done to finalise the price value of the property.

4.3.2 Property Analysis

The property analysis report is made after the market analysis of the property. The property analysis report covers the following aspects depending on its size:

1. Market analysis report of demographic, sociographic and geographic data
2. Physical and economic characteristics of the property like; plot size, building design, elevation, laws and regulations, and the economic principles governing the property market
3. Pricing of property, including the basic cost information and renovation cost
4. Operating expense to maintain property like utilities, property taxes, insurance, repairs and maintenance
5. Income information about the revenue the property produces such as rent receipts

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6. Finance availability for property, such as various loans, total loan amount to finance the property, down payment, interest rates and closing costs

Thus, property analysis is the summarised description of the property covering each and every aspect of property; it is useful to know where the property stands in the market place.

4.3.3 Analysis of Owner's Objectives

Market analysis enables the relevant user in understanding the market profitability of the property and the complete property analysis helps in the acknowledging the property's valuation and the current marketplace of the property. The next aspect of property management planning is the analysis of the property owner's objective. Owner's objective can vary according to the use of the property or the end use of property. The owner can withhold the property for many purposes, such as residential use, commercial use or any special purpose. Residential properties have more scope and the owners have multiple objectives for withholding the residential property. The owner's objective decides the usage of the property and the utility of the property helps in the financial valuation of the property related to purchase or for renting the property.

4.3.4 Preparation of Property Management Plan

Property management plan is a full process, which involves various components to be collected and then stepping up the plan. The various components of a property management plan are:

1. **Property Information:** Property information includes different attributes of the property such as physical attributes (size, facilities and geographical conditions); economic attributes (demand and supply rate of property); financial attributes (purchase value, rental value); and legal attributes (laws and regulations). The first step of planning in property management includes the collection of full property information to create a base for further planning.
2. **Maps**: The location of the property is an important aspect of property management. Maps help the planners locate the property, and help them in scanning nearby places such as commercial infrastructure, landmarks and future development projects.
3. **Setting Objectives**: After collection of the property information, the objective is set. The objective is the final goal or vision related to the property. It keeps in mind the vision of the owner and the property manager of that property. The user vision is also checked under this setting of objectives.
4. **Preparing an Inventory:** After the scan of property market and the study of demand, the property management organizations prepare the list of properties available according to the location preferred and demand of the users. The inventory of property refers to the exact availability of property in the particular region meeting the needs and desires of the intended users.

5. **Scheduling of Activities:** Scheduling is the art of planning the activities so that the goals can be achieved in the time available. When it is done effectively, it helps to understand what can realistically be achieved within the given time. After the stage of acquiring the availability of property, the activities are scheduled for the promotion of the property and continuous efforts are need to be put to trade the property in an easy manner.
6. **Record of Activities:** The record of activities allows property managers to make an inventory of the data processing and to have an overview of what you are doing with the concerned personal data.
7. **Review of Past Activities and Plan Update:** The past activities performed for achievement of the goal are reviewed so that the loop holes of the previous activities can be identified. This also helps in updating the new planning for the property management.

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Check Your Progress

3. Define property management planning.
4. What do you understand by the term 'market analysis'?
5. What are the legal and regulatory attributes of a property?
6. Mention the factors affecting the demand of the property market.
7. What is property analysis?

4.4 PROPERTY MANAGEMENT AS A PART OF COMPETITIVE STRATEGY

It can be said that with increase in the availability of property, there has also been an increase in the competition in the property market. The competitive advantages of the property management are discussed below:

1. **Finding Deals:** The best competitive advantage of every property business is finding great deals. To find good business deals, one needs to adapt unconventional ways of finding the deals instead of going the way the masses do.
2. **Financing Deals:** A cash buyer can usually offer more than a hard money buyer because they do not have to pay interest out of their spread. The buyer who uses seller financing can pay even more, while taking on less exposure.
3. **Reduced Rehabilitation Costs:** It is the difference between the actual retail construction cost and the amount an investor will ay for the property. A successful property manager should be able to find the proper rehabilitation cost of the property.

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4. **Market Savy:** It is the knowledge of the market in which a property manager is are dealing in. Proper knowledge can help a property manager survive for long time in the real estate market.
5. **Speed**: It is the ability to find, analyse and funding the property quickly so that the property can be grabbed easily. The observational level of person in real estate and the speed of capturing the opportunity is a competitive advantage in the real estate market.

Strategies to Face Competition in Real Estate

(a) **Set up a Dynamic Website:** The success of a real estate business in the present scenario is to set up a dynamic website of the business and showcase all the listed properties under different categories. The website should be attractive, relevant to the user, and provide full information regarding the properties.

(b) **Provide Value:** Good property management involves understanding the needs of the customer and the behaviour pattern of customers. Customers need to be provided value in terms of understanding their objective, requirements and the vision behind the purchase of property.

(c) **Offering Extraordinary Customer Services:** The consumer is considered the king of market. If the consumer is satisfied, then the success rate of business increases. Real estate managers need to provide their customer with extraordinary services, such as easy financing, repairs, 24*7 services, so that more and more customers are retained.

(d) **Visual Media:** The property can be visually showcased to the intended users through video advertisements, short films, actual pictures not elevation designs so that consumers live up with that property in an imaginary world and without entering they feel as a part of that property. The selling rate can be increased by the visual showcasing of property.

(e) **Uniqueness**: The USP of any product plays a huge role in the success rate of any business. The real estate business needs to present the uniqueness of the property being shown to the intended users. The users must understand the unique difference between your property and the same type of property nearby.

These are the techniques and strategies to handle competition level in the real estate business. For successful property management, the organization needs to take care of the points discussed above.

Check Your Progress

8. What are the strategies and techniques to handle competition in real estate?
9. What should a real estate website contain?

4.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Managerial economics is defined as the science that studies various economic theories, principles, concepts and techniques.
2. Real estate economy is the application of economic techniques to real estate markets. It studies, explains and predicts pattern of prices, supply and demand of property in the region.
3. Property management planning refers to the documented work or the blueprint for the way an organization is being run, both day to day and over the long run.
4. Market analysis is a documented investigation of a market that helps in studying the planning activities of the particular industry.
5. The legal and regulatory attributes of a property include the laws related to the property, the property registration and the process of transferability of ownership and also the regulations of Municipal Corporation or any other local regulatory body.
6. The factors affecting the demand of the property market are population, income of individual, taste and preference of user, behavioural factor, motivational and psychological factors.
7. Property analysis is the summarised description of the property covering each and every aspect of property; it is useful to know where the property stands in the market place.
8. The techniques and strategies to handle competition level in the real estate business include setting up a dynamic website, providing value, offering extraordinary customer service, visual media and uniqueness.
9. The website should be attractive, relevant to the user, and provide full information regarding the properties.

4.6 SUMMARY

- Managerial economics is defined as the science that studies various economic theories, principles, concepts and techniques.
- Business economics is a microeconomic concept, which studies the economic issues of any business in the country.
- Business economics features both science and art as like science economics has its set of theories, principles and assumptions that play the basis for decision making.

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- Real estate economy is application of economic techniques to real estate markets. It studies, explains and predicts pattern of prices, supply and demand of property in the region.
- It covers the concept of partial equilibrium analysis, urban economics, spatial economics and extensive research in property economics, surveys and finance.
- Property management planning is the documented work or the blueprint for the way an organization is being run, both day to day and over the long run.
- Market analysis is the study of the attractiveness and the dynamics of a special market within a special industry.
- It is a documented investigation of a market that helps in studying the planning activities of the particular industry.
- The steps of market analysis in property management are defining product property productivity analysis; defining user market alienation; forecasting demand factors; analysing inventory and forecast competitive supply; analysing the interaction of supply and demand; and forecasting subject capture.
- Property analysis is the summarised description of the property covering each and every aspect of property; it is useful to know where the property stands in the market place.
- Owner's objective can vary according to the use of the property or the end use of property. The owner can withhold the property for many purposes, such as residential use, commercial use or any special purpose.
- Property management plan is a full process, which involves various components to be collected and then stepping up the plan.
- Increase in the availability of property has led to an increase in the competition in the property market.
- Competitive advantages of property management include finding deals, financing deals and rehabilitation costs.
- The success of a real estate business in the present scenario is to set up a dynamic website of the business and showcase all the listed properties under different categories.
- Real estate managers need to provide their customer with extraordinary services, such as easy financing, repairs, 24*7 services, so that more and more customers are retained.
- The USP of any product plays a huge role in the success rate of any business. The real estate business needs to present the uniqueness of the property being shown to the intended users.

4.7 KEYWORDS

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- **Market Analysis:** A market analysis studies the attractiveness and the dynamics of a special market within a special industry. It is part of the industry analysis and thus in turn of the global environmental analysis. Through all of these analyses, the strengths, weaknesses, opportunities and threats of a company can be identified.
- **Real Estate Economics:** It is the application of economic techniques to real estate markets. It tries to describe, explain, and predict patterns of prices, supply, and demand.
- **SWOT Analysis:** It is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.

4.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the essential steps in market analysis?
2. List some benefits of property management planning.
3. What is the importance of analysing user market delineation in property productivity analysis?
4. Mention the aspects of a property covered by a market analysis of the property.
5. How does the owner's objective affect a property's valuation?
6. State any two essential strategies for competitive advantage for Property Management business.

Long-Answer Questions

1. Analyse the concept of business economics.
2. Explain the process of market analysis in detail.
3. Describe in detail the various components of a property analysis report.
4. Discuss the process of setting up a property management plan.
5. Examine the ways to create competitive advantage in the property business.

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BLOCK II:
STRATEGIC, PERFORMANCE, MANAGING RETAIL PROPERTY

UNIT 5 STRATEGIC PROPERTY MANAGEMENT

Structure

5.0 INTRODUCTION

Property management includes overseeing the operation, control and maintenance of real estate and physical property. A property manager or a management organization has many roles, including managing the accounts and finances of the real estate properties, and participating in or initiating litigation with tenants, contractors and insurance agencies. This unit discussed strategic planning of property management. It also discusses why a real property is considered as investment asset and the role of corporate property with special significance to SEZ. The unit also covers the process of formulation of strategy and activities for strategic utilisation of property. It also briefly discusses the legal aspects of property development.

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5.1 OBJECTIVES

After going through this unit, you will be able to:

- Understand the role of strategic property management
- Understand the process of formulating strategy
- Analyse catchment survey, property positioning, joint development of property
- Examine the legal laws of property management

5.2 CONCEPT STRATEGIC PROPERTY MANAGEMENT

Strategic management is a function of management, which involves taking decisions related to the growth and long-range success of a business. They are a series of business decisions that lead to achieve business objectives of an organization. It involves planning, analysing and implementing a business strategy. It includes the matching of business resources to market opportunities. Strategic management also involves seeking and identifying opportunities and threats in the market and the industry as well as the outside world in general.

The strategic management of a property refers to managing income-generating properties. It is the process of maintaining properties. It also involves the legalities surrounding rental homes and a superior approach to customer service. It helps clients with making properties, handling tenant questions and concerns and keeping detailed financial reports and records.

5.2.1 Importance of Strategic Property Management

Real estate business is currently experiencing a shift in demand away from the traditional business operating model and towards more flexible solutions, such as co-working spaces. The role of strategic property management has increased much in professional property management. Some of the benefits of strategic property management are discussed below:

1. **Meet Performance Targets**: Strategic property management helps in meeting a business' targets. It provides direction to the property manager, which helps in achieving the objective. With proper strategic planning, a property manager can anticipate the future trends and changes, and can easily meet the targets.
2. **Growth of Business:** Strategic management ensures organizational effectiveness in several ways. The concept of effectiveness is that the organization is able to achieve its objectives within the given resources. Thus, for effectiveness, it is not only necessary that resources are put to the best of their efficiency but also that they are put in a way that ensures their

maximum contribution to organizational objectives. The increase in the efficiency and effectiveness helps in growth of business.

3. **Strengthening Long-Term Competition Motivation:** Business environment changes rapidly. A business concern cannot achieve its long-term objectives of profitability, such as a higher rate of return, productivity, technological leadership, market standing, market leadership, industry leader, etc., without formulating an appropriate strategy and without implementing it effectively. Thus, strategic management enables to achieve the long-term objectives of an organization through its strategic management process.
4. **Cost-cutting:** Property management strategy helps in cutting the cost incurred in the construction, maintenance or sale of property before they are out of control. Cost cutting measures can include laying off employees, closing facilities, downsizing offices and streamlining the supply chain. When embarking on cost cutting it is important to have a cost-cutting strategy that classifies costs as bad costs, good costs and best costs.
5. **Future Forecasting:** The future is uncertain; however, strategic management helps a business concern to face uncertainties in the future with the help of the techniques of business forecast. Such a forecast provides clues about future happenings. This enables a business concern to formulate a suitable strategy.
6. **Adjusting Services:** There are different types of tenants and each tenant demands some or the other new additions to the property. A good strategy planning can help in creation of flexible plans so that if there are any emergencies then they can be easily adjusted and the tenants' demands can be met.
7. **Identification of Quality Tenants:** A quality tenant is very important for property management and a quality tenant does not create problems for the landlord in the matter of rent payment or safety and maintenance of the property. A strategic property management helps in identification of quality tenants for the property.

Check Your Progress

1. What do you understand by strategic management of a property?
2. How does strategic management of a property ensure strengthening long-term competition motivation?

5.3 PROPERTY AS AN INVESTMENT ASSET

An investment property is a real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property or both. The property may be held by an individual investor, a group of investors or a corporation. An investment property can be a long-term

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undertaking or a short-term investment. Short-term investment often involves reversing, where real estate is bought, altered or renovated, and sold at a profit within a short time frame. The term 'investment property' may also be used to describe other assets an investor purchases for the sake of future appreciation such as art, securities, land or other collectibles.

Types of Investment Properties

- **Residential:** Rental homes are a popular way for investors to increase their income. An investor who purchases a residential property and rents it out to tenants can collect monthly rents. These can be single-family homes, apartment houses, apartments, town homes or other types of residential structures.
- **Commercial:** Income-generating properties do not always have to be residential. Some investors, especially corporations, purchase commercial properties that are used specifically for business purposes. Maintenance and improvements of these properties can be higher, but these costs can be counterbalanced by bigger returns. That is because these leases for these properties often command higher rents. These buildings may be commercially owned apartment buildings or retail store locations.
- **Mixed-Use:** A mixed-use property can be used simultaneously for both commercial and residential purposes. For instance, a building may have a retail storefront on the main floor such as a convenience store, bar, or restaurant, while the upper portion of the structure can house residential units.

There are numerous benefits of investing in real estate. With well-chosen assets, investors can enjoy predictable cash flow, excellent returns, tax advantages and diversification. It is also possible to leverage real estate to build wealth.

5.4 DEFINITION OF CORPORATE PROPERTIES (EXHIBIT-SEZ)

Corporate properties are real properties held by business enterprises or any business organization for their own operational purposes. They include headquarters, branch offices, manufacturing units and retail properties. These properties are used for functional practice of the business, setting up of departments or professional setup concerned with the planning, acquisition, design, construction, management and administration of real property on behalf of the company.

Special Economic Zones

They are geographical regions that have economic laws that are more liberal than a country's domestic economic laws. The aim behind creation of a Special Economic Zone (SEZ) is to increase Foreign Direct Investment (FDI) by the

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foreign investors or a Multi-National Company (MNC). An SEZ covers the following broad range of specific zones:

1. Free Trade Zones (FTZ)
2. Export Processing Zones (EPZ)
3. Free Zones (FZ)
4. Industrial Estates (IE)
5. Free Ports
6. Urban Enterprise Zones (UEZ)

Check Your Progress

3. Name the three types of investment properties.
4. What are corporate properties?

5.5 FORMULATING STRATEGY FOR PROPERTY MANAGEMENT

The process for formulating strategy for property management is:

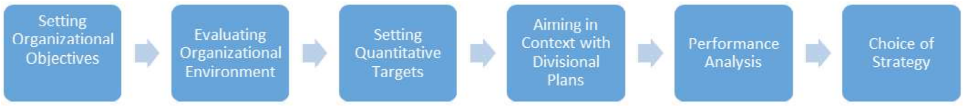

Fig 5.1: *Process for formulating property management strategy*

1. **Setting Organizational Objectives:** The foremost step of formulation of any strategy is to set the organizational objectives. The objectives are the end result of any project. There can be a number of objectives of an organization such as economic objectives, social objective or human objectives.
2. **Evaluating Organizational Environment:** Organizational environments are composed of forces or institutions surrounding an organization that affect the organization's performance, operations and resources. It includes all elements that exist outside of the organization's boundaries, and have the potential to affect a portion or all of the organization. In the property market, the internal forces can be the clients, suppliers, workers, tenants, investors etc. The second step in formulation of a strategy is to evaluate the components of the organizational environment, there types, nature, behaviour and changing patterns.
3. **Setting Quantitative Targets:** Target setting provides with the direction of executing the work. The targets must always be set in quantitative terms as they are easy to compare, explain and also they are easy to measure. The quantitative targets make the working easier. In property management

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the targets can be like the number of properties to be rented in a specified period.

4. **Aiming in Context with Divisional Plans:** Divisional planning includes the plans formulated for various departments or divisions of an enterprise. It determines the scope and activities of a particular department and its operations. It is also known as operational planning. The strategy formulated must be related to the operational plans of other divisions so that there is coordination in working.
5. **Performance Analysis**: The next step is to check the actual work done and whether the target and standards set earlier have been met. If there are any deviations, then corrective measures need to be taken. The performance also depends on the changing environment conditions of the business, and the performance analysis should consider the prevailing changes.
6. **Choice of Strategy:** The last step in strategy formulation is to select the appropriate strategy according to the performance level, divisional plans, set targets and the prevailing organizational environment.

5.5.1 Catchment Survey

A catchment area is a geographical area from which a particular location draws its customer or prospects. Catchment survey sets the right catchment area which is an inevitable step for any remarketing activity.

5.5.2 Positioning the property

Positioning is the marketing art of knowing what available space or position offering fills in the market, and then getting that message to exactly the people who want what you're offering. By the correct positioning of property, the seller is able to select the correct medium to do marketing of the property in the market. By first figuring out the position that your offering fills, you can easily figure who you want to talk, what you want to say and what marketing vehicles – from advertising to direct mail to online to personal calls – you should use to reach the people you are targeting.

Check Your Progress

5. What are the steps in formulating strategy for property management?
6. What do you understand by positioning of a property?

5.6 JOINT DEVELOPMENT AGREEMENT OF PROPERTY

In a Joint Development Agreement (JDA), a landowner contributes his land for the construction of a real estate project and the developer undertakes the

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responsibility for the development of property, obtaining approvals, launching and marketing the project. A JDA is one of the most common features in the real estate sector, which confines the landlord and the buyer in an agreement for construction of new projects. In return for the land provided by the former, the latter agrees to provide to some provisions. The developer agrees to provide a lump sum consideration, percentage of sales revenue, or a certain percentage of the newly constructed project on the said piece of land. This depends on the terms and conditions, mutually agreed upon by the parties. In this manner, a JDA helps to pool the resources of both the developer as well as the landowner together. After earmarking a certain portion to the landowner, the remaining area is sold off by the developer directly.

Benefits of entering a Joint Development Agreement

Some of the significant benefits of entering into a JDA are:

- No initial investment required for land procurement;
- Partial avoidance of stamp duty;
- Fast-paced development of the property, as working capital is majorly required for meeting the construction needs; and
- Competent consideration for the landlord

Check Your Progress

7. Define JDA.
8. What are the benefits of entering a JDA?

5.7 LEGAL ASPECTS OF PROPERTY DEVELOPMENT

The government of India has set many laws for the real estate sector. There are many laws which ensure a legalised way of maintaining the exchange of real estate in India. The laws also protect the rights of the landlords and tenants.

5.7.1 Legal Laws

1. **Transfer of Property Act, 1882**: The Transfer of Property Act, 1882 is an Indian enactment, which directs the exchange of property in India. It contains explicit arrangements concerning what comprises an exchange and the conditions connected to it. It came into power on July 1, 1882.

   As per the Act, 'move of property' signifies a demonstration by which an individual passes on the property to at least one people or himself and at least one different people. The demonstration of move might be done in the present or for what is to come. The individual may incorporate an individual,

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organization or affiliation or assortment of people, and any sort of property might be moved, including the exchange of unflinching property.

Section 44 of the Act deals with transfers by one co-owner. It also deals with the rights of a transferee in this type of transaction.

Ownership: Possession comprises an endless number of cases, freedoms and powers with respect to the thing claimed. Proprietorship is of various types, including supreme and restricted, sole possession, co-proprietorship, vested possession, unforeseen possession, bodily and ethereal. At the point when an individual possesses property in one time, it is called a sole proprietorship; however, on the off chance that the property is claimed by more than one individual, it is called a joint proprietorship. By methods for segment one can have co-possession changed into sole proprietorship. Therefore, if a co-owner is deprived of his property, he has a right to be put back in possession. Such a co-owner has an interest in every portion of the property and has a right irrespective of his quantity of shares, to be in possession jointly with others. This is also called joint-ownership.

The following are the types of co-ownerships:

Tenants in Common: When the type of co-proprietorship is not explicitly expressed, as a matter of course, an occupancy in like manner is probably going to exist. Each inhabitant in like manner has a different partial enthusiasm for the whole property, and each may have and utilise the entire property. Inhabitants in like manner may hold inconsistent enthusiasm for the property yet the interests held by each occupant in like manner is a fragmentary enthusiasm for the whole property. For instance, B claims a 25% enthusiasm for the property and A possesses a 75% intrigue. Each inhabitant in like manner may uninhibitedly move his/her enthusiasm for the property.

Inhabitants in like manner do not have the privilege of survivorship. Thus, upon the demise of one occupant in like manner, his/her advantage passes by means of a will or through the laws of intestacy to someone else who will at that point become an inhabitant in the same way as the enduring co-proprietors.

Joint Tenancy: The most attractive feature of a joint tenancy is the right of survivorship. Upon the death of one joint tenant, his/her interest immediately passes to the surviving joint tenants and not to the decedent's estate. Joint tenants hold a single-unified interest in the entire property. Each joint tenant must have equal shares in the property For instance, B and A each hold a 50% interest. Each joint tenant may occupy the entire property subject only to the rights of the other joint tenants.

2. **The Indian Easements Act, 1882:** The Indian Easements Act, 1882 was brought into force from February 17, 1882. This Act deals with easements and licence. An easement is a right possessed by the owner or occupier of a certain for the beneficial enjoyment of that land, to do and continue to do something, or to prevent and continue to present something being done, in

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or upon, or in respect of, certain other land not his own. As per Section 4 of the Act, Dominant and Serving Heritages and Owners, the land for the beneficial enjoyment of which the rights exists is called the dominant heritage, and the owner or occupier thereof the dominant owner. The land on which the liability is imposed is called the serving heritage, and the owner or occupier thereof the serving owner. In the first and second clauses of this section, the expression "land" includes the things permanently attached to the earth; the expression "beneficial enjoyment" includes possible convenience, remote advantage, and even a mere amenity; and the expression "to do something" includes removal and appropriation by the dominant owner, for the beneficial enjoyment of the dominant heritage, of any part of the soil of the serving heritage or anything growing or subsisting thereon.

Section 52 of the Indian Easements Act 1882 defines the expression "licence" as a grant by one person to another a right to do or continue to do in or upon the immovable property of the grantor something which would in the absence of such right be unlawful and such right does not amount to an easement or an interest in the property. Section 52 does not require any consideration, material or non-material, to be an element of the definition of licence, nor does it require that the right under the licence must arise by way of contract or as a result of mutual promises.

Thus, "licence" as defined in Section 52 of the Indian Easements Act 1882 can be a unilateral grant and unsupported by any consideration. The concept of licence is distinguishable from the concepts of easement and interest in a property. Licence is purely a personal right created and terminable at will, which may or may not be supported by material consideration.

Section 56 of the Indian Easements Act, 1882 provides that a licence is not transferable. Section 56 provides that where the grantor of the licence transfers the property affected thereby, the transferee is not bound by the licence already granted.

Section 60 provides that a licence may be revoked by the grantor at will. There are, however, two known exceptions to this. First, where the licence is coupled with transfer of property and such transfer is in force. Second exception is where the licensee acting upon the licence has executed a work of permanent character and incurred expenses in the execution thereof. Section 61 of the Indian Easements Act, 1882 provides that revocation of a licence may be express or implied. Section 62 indicates specific cases where, upon occurring of certain facts, a licence already granted is deemed to be revoked.

Section 63 provides for the only right of the licensee where a licence is revoked for a reasonable time to leave the properly affected therein, and to remove any goods which he has been allowed to place on such property.

As per Section 64, when a licence has been granted for a consideration and the licensee without any fault of his own is evicted by the grantor before has

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fully enjoyed the licence right, the licensee is entitled to recover compensation from the grantor.

3. **The Indian Stamp Act, 1899:** The basic purpose of Indian Stamp Act, 1899 is to raise revenue to the government. The Stamp Act is a fiscal enactment on the basis of which stamp duties are levied on transactions in the shape of stamp on instruments, leviable with stamp duties on them. The Schedule to the Act is deemed to be exhaustive and to be strictly construed. Instruments not mentioned in the Schedule are deemed to be excluded from the operation of the Act. The duty payable is to be determined with reference to the Act in force at the time of execution of the document.

   Any instrument mentioned in Schedule I to the Indian Stamp Act is chargeable to duty as prescribed in the schedule. The list includes all usual instruments like affidavit, lease, memorandum and articles of company, bill of exchange, bond, mortgage, conveyance, receipt, debenture, share, insurance policy, partnership deed, proxy, shares etc. Thus, if an instrument is not listed in the schedule, no stamp duty is payable. 'Instrument' does not include ordinary letters. Similarly, an unsigned draft of an agreement is not an 'instrument'. The stamp duty is on the instrument as it stands and not on the transaction. Instruments where stamp duty is not payable are listed below:

   - Documents, executed on behalf of the Government;
   - Testamentary documents;
   - Documents required to be made for judicial or non-judicial proceedings;
   - Any instrument for the sale, transfer or other disposition, either absolutely or by way of mortgage or otherwise, of any ship or vessel, or any part, interest, share or property of or in any ship or vessel registered under the Merchant Shipping Act, 1894, or under Act 19 of 1838, or the Indian Registration of Ships Act, 1841, as amended by subsequent acts;
   - Any instrument executed, by, or, on behalf of, or, in favour of, the Developer, or Unit or in connection with the carrying out of purposes of the Special Economic Zone; and
   - Securities dealt in depository and corporatisation and demutualisation schemes and related instruments

   If one instrument relates to several distinct matters, stamp duty payable is aggregate amount of stamp duties payable on separate instruments.

   The main criterion under this section is not whether the instrument embodies distinct contracts but whether it contains distinct matters. If it does, then it must be charged with the aggregate of the duties payable in respect of all such matters even though they are written on the same paper and are signed by all parties concerned. Every instrument written upon paper stamped with an impressed stamp should be written in such a way that the stamp may appear on the face of the instrument and cannot be used for or applied to any other instrument. The object of this section is to prevent the stamp paper being used for a second time for another instrument. No second instrument chargeable with duty should be written upon a piece of stamped paper upon which an instrument chargeable with duty has already been written. Instruments executed in India must be stamped before or at the time of execution. Execution means signature and an instrument liable to stamp duty becomes chargeable as soon as it is signed by the executant. Instrument executed out of India can be stamped within three months after it is first received in India. However, in case of bill of exchange or promissory note made out of India, it should be stamped by first holder in India before he presents for payment or endorses or negotiates in India. Valuation for stamp duty is covered under Sections 20 to 28 of the Indian Stamp Act, 1899.

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If an instrument is chargeable with ad valorem duty in respect of any money expressed in any foreign currency, then the duty should be calculated on the value of such money in rupees according to the current rate of exchange on the day of the date of the instrument. In cases where property is transferred in consideration of any debt or future payment, then the consideration of such debt, money or stock will be treated as if the transfer is chargeable with ad valorem duty. Where the value of the subject matter cannot or could not be determined, then nothing more than the highest amount of value for which if stated in an instrument of the same description, the stamp actually used would, at the date of such execution will be claimable. The consideration, if any and all the facts and circumstances affecting the chargeability of the instrument with duty should be clearly and fully mentioned in the instrument. In the absence of any agreement between the parties as to the payment of duty, the expense of providing the proper stamp should be borne by the executant of the document. Normally, the person paying the duty himself may decide the stamp duty payable and pay accordingly. However, in cases of complex documents, the person paying the duty may not be sure of the stamp duty payable. In such case, he/she can apply for opinion of the Collector. He/she has to apply with the draft document and prescribed fees. The Collector will determine the stamp duty payable as per his judgment. An instrument not 'duly stamped' cannot be accepted as evidence by civil court, an arbitrator or any other authority authorised to receive evidence. However, the document can be accepted as evidence in criminal court.

4. **The Land Acquisition Act, 1894:** Land Acquisition may be defined as the action of the government whereby it acquires land from its owners in order to pursue certain public purpose or for any company. This acquisition is subject to payment of compensation to the owners or to persons interested in the land. Land acquisitions by the government generally are compulsory in nature, not paying heed to the owner's unwillingness to part with the land. The Act authorises governments to acquire land for public purposes such as planned development, provisions for town or rural planning, provision

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for residential purpose to the poor or landless and for carrying out any education, housing or health scheme of the Government. It was enacted for building an adequate stock of urban land for public interest purposes such as low-income housing, road widening, development of parks and other amenities. Such land is typically acquired by the government through payment of compensation to landowners as per market value. The Act also specifies the public officers who are authorised for such acquiring of land on behalf of the State. They include the Collector, Deputy Commissioner and also any officer who is specially appointed by the appropriate government under the authority of law.

The steps involved in land acquisition are discussed below:

(a) A notification is published in an official gazette and in two daily newspapers whenever it appears to the appropriate government that a land in any locality is needed for any public purpose. Thereupon, it shall be lawful for any officer authorised by such government to enter upon and survey and take levels of any land in such locality, to dig or bore into the sub-soil, to do all other acts necessary to ascertain whether the land is adapted for such purpose, to set out the boundaries of the land proposed to be taken and the intended line of the work (if any) proposed to be made thereon, to mark such levels, boundaries and line by placing marks and cutting trenches.

(b) Declaration should be made that the land is required for public purpose under the signature of a Secretary to such government. Every declaration should be published in the official gazette and in two daily newspapers circulating in the locality in which the land is situated. After declaration, the collector will take order for acquisition. The collector will thereupon cause the land to be marked out.

(c) The collector should then give public notice at convenient places on or near the land to be taken; stating that the Government intends to take possession of the land and that claims to compensations for all interests in such land may be made to him.

(d) The collector will then make inquiry into measurements, value, claims and awards. The collector should make an award within a period of two years from the date of the publication of the declaration and if no award is made within that period, the entire proceeding for the acquisition of the land will lapse.

(e) After making an award for possession of the land, land will vest absolutely in the government, free from all encumbrances.

5. **The Land Acquisition, Rehabilitation and Resettlement, Bill, 2011:** The Land Acquisition Act, 1894 is the general law relating to acquisition of land for public purposes and also for companies and for determining the amount of compensation to be made on account of such acquisition.

The provisions of the said Act have been found to be inadequate in addressing certain issues related to the exercise of the statutory powers of the State for

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involuntary acquisition of private land and property. The Act does not address the issues of rehabilitation and resettlement to the affected persons and their families.

The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 seeks to balance the need for facilitating land acquisition for various public purposes, including infrastructure development, industrialisation and urbanisation, while at the same time meaningfully addressing the concerns of farmers and those whose livelihoods are dependent on the land being acquired. The issue of who acquires land is less important than the process of land acquisition, compensation for land acquired and the rehabilitation and resettlement process, package and conditions.

The Bill specifies these conditions, irrespective of the ratios of private and government acquisition. The objective is to make the process of land acquisition easy, transparent and fair for both sides in each instance.

The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 was introduced in LokSabha on September 7, 2011 and was referred to the Parliamentary Standing Committee on September 13, 2011. The Standing Committee on Rural Development submitted its report on May 17, 2012.

The provisions of the Bill relating to land acquisition, rehabilitation and resettlement, shall apply, when the appropriate government acquires land (a) for its own use, hold and control; (b) with the purpose to transfer it for the use of private companies for public purpose (including Public–Private Partnership projects but not including national or state highway projects); or (c) on the request of private companies for immediate and declared use by such companies of land for public purposes: Provided that no land shall be transferred by way of acquisition, in the scheduled areas in contravention of the law relating to land transfer, prevailing in such scheduled areas. The provisions relating to rehabilitation and resettlement under this Act shall apply in the cases where, (a) a private company purchases or acquires land, equal to or more than one hundred acres in rural areas or equal to or more than fifty acres in urban areas, through private negotiations with the owner of the land as per the provisions of section 42; (b) a private company requests the appropriate government for acquisition of a part of an area so identified for a public purpose. In such case, if a private company requests the appropriate government for partial acquisition of land for public purpose then the rehabilitation and resettlement entitlements shall be applicable for the entire area identified for acquisition by the private company and not limited to the area for which the request is made.

5.6.1 Property Tax

Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city. In India, it is the owners of the property who are liable for the payment of municipal taxes whereas in countries like the United Kingdom, the occupier is liable. Generally, the property tax is levied on the basis of reasonable rent at which the property might be let from year to year. The reasonable rent can

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be actual rent if it is found to be fair and reasonable. In the case of un-let properties, the rental value is to be estimated on the basis of letting rates in the locality. In the case of special class of properties like cinema theatres, it is estimated by adopting the accountancy method under which the rent is a certain percentage of the total average turnover during the year, i.e., actual receipts of the sale of tickets (excluding entertainment duty).

The following types of properties are liable to be taxed under property tax:

- Residential house (self-occupied or let out)
- Office building
- Factory building
- Godowns
- Flats
- Shops

Check Your Progress

9. What is the Transfer of Property Act, 1882?
10. Define license as per the Indian Easements Act, 1882.
11. What is the significance of the Land Acquisition Act, 1894?

5.7 REAL ESTATE REGULATORY AUTHORITY (RERA), 2016

The Real Estate Regulatory Authority (RERA) came into existence as per the Real Estate (Regulation and Development) Act, 2016 which aims to protect the home purchasers and also boosts the real estate investments. The bill of this Parliament of India Act was passed on March 10, 2016 by the Upper House (Rajya Sabha). The RERA Act was effective on and from May 1, 2016. At that time, out of 92 sections only 52 were notified. All the other provisions were effective on and from May 1, 2017.

RERA was established to enhance accountability and transparency with respect to housing transactions and real estate. The salient features of this Act are discussed below:

1. RERA should be established in every Indian state in order to monitor as well as adjudicate and arbitrate any disputes with respect to real estate projects in the concerned state.
2. A fast-track mechanism must be established for settlement of disputes; this will be done via an appellate tribunal and dedicated adjudicating officers.
3. All real estate projects must be registered with RERA so that the authority will have jurisdiction over the projects. The registration of a

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particular project can be rejected by the authority if guidelines have not been adhered to.

4. In case a promoter wishes to transfer or assign a majority of his/her rights and liabilities in a real estate project to a third party, written consent from two-thirds of the allotted will be needed in addition of the written approval of RERA.
5. If there is any default from the side of the buyer or promoter, both will be liable to pay an equal rate of interest.
6. If the promoter causes any losses to the buyer due to other people laying claim to property (defective title of land) which is under construction or has been constructed, the promoter will have to compensate the buyer. There is no limitation provided by any law currently with respect to the compensation amount.
7. If a person has any problems regarding violation of the provisions or rules of this Act by a promoter, buyer, or an agent, they can file a complaint with RERA.
8. While an enquiry is taking place, RERA can stop an agent, promoter or buyer from continuing any activity against which a complaint has been raised.
9. If any of RERA's decisions regarding a complaint is not satisfactory, the aggrieved party can submit an appeal before the Appellate Tribunal.
10. If the promoter fails to follow RERA's orders, they will have to pay a penalty. This amount could be up to 5% of the evaluated cost of the property.
11. If the Appellate Tribunal's orders are not complied with, a penalty will have to be paid. This can either be imprisonment for up to three years or a fine (up to 10% of the approximate cost of the project), or both.
12. If a company commits an offence under this Act, any person who was in charge of the business at the time of the offence being committed and the company will be held guilty and will be punished.
13. No civil court will have any jurisdiction with respect to any matter that comes under RERA or the Appellate Tribunal's jurisdiction. As such, no court can grant an injunction with regards to any action taken by RERA or the Tribunal.

Benefits of RERA

RERA offers a number of benefits for the buyer, the promoter and the real estate agent. These include:

1. **Standardisation of carpet area:** Before RERA, the manner by which a builder calculated the price of a project was not defined. However, with RERA there is now a standard formula that is used to calculate carpet area. This way, promoters cannot provide inflated carpet areas to increase prices.

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2. **Reducing the risk of insolvency of the builder:** Most promoters and developers tend to have multiple projects being developed at the same time. Earlier, developers were allowed to move funds raised from one project to that of another. This is not possible with RERA since 70% of the funds raised need to be deposited in a separate bank account. These funds can be withdrawn only after certification by an engineer, a chartered accountant and an architect.
3. **Advance payment:** As per the rules, a builder cannot take more than 10% of the cost of the project from the buyer as advance or application fees. This saves the buyer from having to source funds fast and having to pay a large amount.
4. **Rights to the buyer in case of any defects:** Within 5 years of possession, if there are any structural defects or problems in quality, the builder has to rectify these damages within 30 days at no cost to the buyer.
5. **Interest to be paid in case of default:** Prior to the RERA Act, if the promoter delayed possession of the property, the interest paid to the buyer was much lower than if the buyer delayed payments to the promoter. This has changed with RERA and both parties have to pay the same amount of interest.
6. **Buyer's rights in case of false promises:** If there is a mismatch in terms of what was promised by the builder and what has been delivered, the buyer is entitled to a full refund of the amount that was paid as advance. At times, the builder may have to provide interest on the amount as well.
7. **If defect in title:** If at the time of possession, the buyer discovers that there is a defect in the title of the property, the buyer can claim compensation from the promoter. There is no limit to this amount.
8. **Right to information:** The buyer has the right to know all the information about the project. This includes plans related to layout, execution and completion status.
9. **Grievance Redressal:** If the buyer, the promoter, or the agent has any complaints with respect to the project, they can file a complaint with RERA. If they are not pleased with RERA's decision, a complaint can also be filed with the Appellate Tribunal.

Impact of RERA Act

After the enforcement of the RERA Act, registration of sale deed of a project unit cannot be done in the office of the sub-registrar without obtaining occupancy certificates or completion certificates. At present, unit registrations are taking place without checking. It is occurring without obtaining Occupancy Certificates or Completion Certificates. No one is bothered about the legal consequences. The Department of Stamps & Registrations know about the RERA Act implications but they have not taken necessary steps to stop the unlawful sale deed registrations of such properties. Below are the few impacts:

- Fewer projects will be launched as the promoters and builders will spend time to understand the impact of the RERA Act, 2016. However, honest promoters/builders/developers will benefit from this scenario as they will face lesser competition.
- Dishonest builders will disappear as they will fail to sustain in the market after the RERA Act is implemented.
- The 32 sections that have been added to the RERA Act, 2016 will encourage a financial discipline in this sector.
- After the Act implementation, the developers will have to follow several formalities if they wish to make certain changes to the project after its commencement. A short-term chaos might break out in the real estate industry but in the long run, it will boost the confidence of the customers and they will invest more.

Carpet Area Defined Under RERA Act

The RERA Act, 2016 has mandated the developers on how to sell their apartments depending on the carpet area.

- According to the Act, carpet area is the total area of the floor that can be used within the walls of the apartment. This does not include areas like open terrace, shafts, balconies, etc.
- This normalisation of the carpet area definition will ensure that buyers are not misled by unlawful promoters.

As the loading factor is high, the saleable area can be inflated by the developer. This will allow the developer to reduce rate per square feet on the saleable area that is inflated. This is extremely misleading as the home purchasers get happy assuming that they are getting amazing rates. However, the flat size never changes, only the loading factor does.

Using the standard for carpet area will ensure that there is a certainty on the usable area. This also helps in the analysis of cost per square feet. Comparison between the different projects also becomes easier.

Check Your Progress

12. What is the Real Estate Regulatory Authority?
13. What is the definition of carpet area as per RERA?

5.9 REGISTRATION AND MUTATION

Let's discuss the laws applicable in relation to registration and mutation of property development.

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The Registration Act, 1908

This act was designed to ensure information about all deals concerning land so that correct land records could be maintained. The act is also used for proper recording of transactions relating to other immovable property.

The act provides for registration of other documents as well, which can give these documents more authenticity. Registering authorities have been provided in all districts for this purpose.

The object and purpose of the Registration Act, 1908, amongst other things, is to provide a method of public registration of documents so as to give information to people regarding legal rights and obligations arising or affecting a particular property.

The registered documents may afterwards be of legal importance, and also aid in preventing fraud. Registration lends inviolability and importance to certain classes of documents. Stamp Act and Registration Act, though not strictly in *pari materia*, may be read together. In case of disputes, definition in Stamp Act may apply to Registration Act if they are not present in the Registration Act, 1908.

Section 2(6) of the Registration Act, gives an inclusive definition of the term 'immovable properties'. The definition includes the following: land, buildings, hereditary allowances, rights to ways, lights, ferries, fisheries, other benefit to arise out of land, and things attached to the earth or permanently fastened to anything that is attached to the earth.

However, immovable properties' definition specifically excludes the following:

- Standing timber
- Growing crops
- Grass

Therefore, an instrument that creates a right or interest in the rents, profits, benefits and income from an immovable property is a document which should be compulsorily registered. All documents relating to sale, conveyance, exchange, gift, settlement partition, mortgage, lease, decrees and release of immovable property of the value of one hundred rupees or more are compulsorily registered documents under Section 17 of the Registration Act, 1908.

The remaining categories of documents mentioned in Section 18 of the Act are optionally registered documents. Every document other than a will should be presented for registration within four months from the date of execution. In case a document requiring registration has been accepted for registration by a registrar or sub registrar from a person not duly empowered to present the same, and has been registered, any person claiming under such document may, within four months from his/her first becoming aware that the registration of such document is invalid, present such document again for registration.

Where there are several persons executing a document at different times, such document may be presented for registration and re-registration within four

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months from the date of each execution. Wills can be presented or deposited at any time. A document relating to an immovable property can be executed out of India and later it can be presented for registration in India.

According to Section 26 of The Registration Act, 1908, if a document purporting to have been executed by all or any of the parties out of India is presented for registration within the prescribed time, the registering officer may, on payment of proper registration fee, accept such document for registration if he is satisfied that (a) the instrument was executed out of India; and (b) the instrument has been presented for registration within four months after its arrival in India. Every document relating to immovable property should be presented for registration in the office of a sub-registrar within whose sub-district, the whole or some portion of the property is situated. Other documents can be registered in the office of the sub-registrar where all persons executing the document desire it to be registered. All documents for registration should be presented at the appropriate registration office by the person executing the document or by the representative or assign of such person or by the agent of the person, representative or assign who is duly authorised by a power of attorney.

According to Section 49(c) of the Act, if a document, of which registration is compulsory under Section 17 of Registration Act, has not been registered, it cannot be produced as evidence in a court of law. However, an unregistered document affecting immovable property and required by this Act, or the Transfer of Property Act, 1882, to be registered may be received as evidence of a contract in a suit for specific performance under Chapter II of the Specific Relief Act, 1963 or as evidence of any collateral transaction not required to be effected by registered instrument.

Check Your Progress

14. What is the Registration Act, 1908?
15. Define immovable properties as per the Registration Act, 1908.

5.10 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The strategic management of a property refers to managing income-generating properties. It is the process of maintaining properties. It also involves the legalities surrounding rental homes and a superior approach to customer service. It helps clients with making properties, handling tenant questions and concerns and keeping detailed financial reports and records.
2. A business concern cannot achieve its long-term objectives of profitability, such as a higher rate of return, productivity, technological leadership, market standing, market leadership, industry leader, etc., without formulating an appropriate strategy and without implementing it effectively. Thus, strategic

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management enables to achieve the long-term objectives of an organization through its strategic management process.

3. The three types of investment properties are:
   (a) Residential property
   (b) Commercial property
   (c) Mixed-use property
4. Corporate properties are real properties held by business enterprises or any business organization for their own operational purposes. They include headquarters, branch offices, manufacturing units and retail properties.
5. The steps in formulating strategy for property management are:
   (a) Setting organizational objectives
   (b) Evaluating organizational environment
   (c) Setting quantitative targets
   (d) Aiming in Context with Divisional Plans
   (e) Performance Analysis
   (f) Choice of Strategy
6. Positioning is the marketing art of knowing what available space or position offering fills in the market, and then getting that message to exactly the people who want what you're offering. By the correct positioning of property, the seller is able to select the correct medium to do marketing of the property in the market.
7. A Joint Development Agreement (JDA), is an agreement between the landowner and the developer, wherein the landowner contributes his land for the construction of a real estate project and the developer undertakes the responsibility for the development of property, obtaining approvals, launching and marketing the project.
8. Some of the significant benefits of entering into a JDA are:
   (a) No initial investment required for land procurement;
   (b) Partial avoidance of stamp duty;
   (c) Fast-paced development of the property, as working capital is majorly required for meeting the construction needs; and
   (d) Competent consideration for the landlord
9. The Transfer of Property Act, 1882 is an Indian enactment, which directs the exchange of property in India. It contains explicit arrangements concerning what comprises an exchange and the conditions connected to it. It came into power on July 1, 1882. As per the Act, 'move of property' signifies a demonstration by which an individual passes on the property to at least one people or himself and at least one different people.
10. Section 52 of the Indian Easements Act, 1882 defines the expression "licence" as a grant by one person to another a right to do or continue to do

in or upon the immovable property of the grantor something which would in the absence of such right be unlawful and such right does not amount to an easement or an interest in the property.

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11. The Land Acquisition Act, 1894 authorises governments to acquire land for public purposes such as planned development, provisions for town or rural planning, provision for residential purpose to the poor or landless and for carrying out any education, housing or health scheme of the Government. It was enacted for building an adequate stock of urban land for public interest purposes such as low-income housing, road widening, development of parks and other amenities.
12. The Real Estate Regulatory Authority (RERA) came into existence as per the Real Estate (Regulation and Development) Act, 2016 which aims to protect the home purchasers and also boosts the real estate investments. The bill of this Parliament of India Act was passed on March 10, 2016 by the Upper House (Rajya Sabha). The RERA Act was effective on and from May 1, 2016.
13. According to RERA, 2016, carpet area is the total area of the floor that can be used within the walls of the apartment. This does not include areas like open terrace, shafts, balconies, etc. This normalisation of the carpet area definition will ensure that buyers are not misled by unlawful promoters.
14. Registration Act, 1908 was designed to ensure information about all deals concerning land so that correct land records could be maintained. The act is also used for proper recording of transactions relating to other immovable property.
15. Section 2(6) of the Registration Act, gives an inclusive definition of the term 'immovable properties'. The definition includes the following: land, buildings, hereditary allowances, rights to ways, lights, ferries, fisheries, other benefit to arise out of land, and things attached to the earth or permanently fastened to anything that is attached to the earth. However, immovable properties' definition specifically excludes standing timber, growing crops and grass.

5.11 SUMMARY

- Strategic management is a function of management, which involves taking decisions related to the growth and long-range success of a business.
- It involves planning, analysing and implementing a business strategy.
- Strategic management of a property refers to managing income-generating properties. It is the process of maintaining properties. It also involves the legalities surrounding rental homes and a superior approach to customer service.
- Some of the benefits of strategic property management are meeting performance targets, business growth, strengthening long-term competition

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motivation, cost cutting and future forecasting.

- An investment property is a real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property or both.
- It can be a long-term undertaking or a short-term investment. Short-term investment often involves reversing, where real estate is bought, altered or renovated, and sold at a profit within a short time frame.
- Corporate properties are real properties held by business enterprises or any business organization for their own operational purposes. They include headquarters, branch offices, manufacturing units and retail properties.
- The process for formulating strategy for property management includes setting organizational objectives, evaluating organizational environment, setting quantitative targets, aiming in context with divisional plans, performance analysis and choosing the suitable strategy.
- Catchment survey sets the right catchment area which is an inevitable step for any remarketing activity.
- Under a a Joint Development Agreement (JDA), a landowner contributes his land for the construction of a real estate project and the developer undertakes the responsibility.
- A JDA helps to pool the resources of both the developer as well as the landowner together. After earmarking a certain portion to the landowner, the remaining area is sold off by the developer directly.
- The government of India has set many laws for the real estate sector.
- The Transfer of Property Act, 1882 is an Indian enactment, which directs the exchange of property in India. It contains explicit arrangements concerning what comprises an exchange and the conditions connected to it.
- The Indian Easements Act, 1882 was brought into force from February 17, 1882. This Act deals with easements and licence. Section 56 of the Indian Easements Act, 1882 provides that a licence is not transferable.
- The basic purpose of Indian Stamp Act, 1899 is to raise revenue to the government. The Stamp Act is a fiscal enactment on the basis of which stamp duties are levied on transactions in the shape of stamp on instruments, leviable with stamp duties on them.
- The Land Acquisition Act, 1894 is the general law relating to acquisition of land for public purposes and also for companies and for determining the amount of compensation to be made on account of such acquisition.
- The Land Acquisition, Rehabilitation and Resettlement Bill, 2011 seeks to balance the need for facilitating land acquisition for various public purposes, including infrastructure development, industrialisation and urbanisation, while

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at the same time meaningfully addressing the concerns of farmers and those whose livelihoods are dependent on the land being acquired.

- Property tax is a levy charged by the municipal authorities for the upkeep of basic civic services in the city.
- The Real Estate Regulatory Authority (RERA) came into existence as per the Real Estate (Regulation and Development) Act, 2016 which aims to protect the home purchasers and also boosts the real estate investments.
- RERA was established to enhance accountability and transparency with respect to housing transactions and real estate.
- The RERA Act, 2016 has mandated the developers on how to sell their apartments depending on the carpet area.
- The Registration Act, 1908 was designed to ensure information about all deals concerning land so that correct land records could be maintained. The act is also used for proper recording of transactions relating to other immovable property.

5.12 KEY WORDS

- **Corporate Property:** Corporate real estate may also describe the functional practice, department, or profession that is concerned with the planning, acquisition, design, construction/fit-up, management, and administration of real property on behalf of a company.
- **Special Economic Zone:** A Special Economic Zone (SEZ) is an area in which the business and trade laws are different from the rest of the country. SEZs are located within a country's national borders, and their aims include increased trade balance, employment, increased investment, job creation and effective administration.
- **Property Tax:** A property tax or millage rate is an ad valorem tax on the value of a property, usually levied on real estate. The tax is levied by the governing authority of the jurisdiction in which the property is located. This can be a national government, a federated state, a county or geographical region or a municipality.
- **Public–Private Partnership:** A public–private partnership (PPP) is a cooperative arrangement between two or more public and private sectors, typically of a long-term nature. In other words, it involves government and business that work together to complete a project and/or to provide services to the population.

5.13 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Discuss the concept of strategic property management.
2. Define corporate property and SEZ.
3. What do you understand by catchment survey and positioning of the property?
4. What do you mean by property as an investment asset?
5. Write a short note on property tax.

Long-Answer Questions

1. What is the importance of strategic property management?
2. State the process of strategy formulation for property.
3. Write a note on the Transfer of Property Act,1882.
4. Explain the features of RERA, 2016.
5. Describe the salient features of the Registration Act.

5.14 FURTHER READINGS

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UNIT 6 PERFORMANCE EVALUATION OF PROPERTY

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Structure

6.0 INTRODUCTION

This unit discusses the process of a property's performance evaluation. It includes the role of property in business performance. It also analyses the life cycle of a property, covering three phases: Boom, Slump and Recovery. It briefly talks about the property life cycle of residential and commercial properties as well. The unit also discusses the concept of benchmarking.

6.1 OBJECTIVES

After going through this unit, you will be able to:

- Identify the methods of performance evaluation of property.
- Understand the role of property in business performance
- Discuss the ways of evaluating performance of property as an investment asset and operational asset
- Examine the property life cycle of residential and commercial properties
- Discuss the concept of benchmarking

6.2 PERFORMANCE EVALUATION OF PROPERTY

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Performance evaluation can be done by considering the following components:

1. **Key Drivers for Property:** The key drivers of property are:
   (a) **Urban Population:** India' rising population means that the need for quality housing and infrastructure will always be on the rise. Rising number of nuclear families with increasing disposable incomes is the core consumer group that is pushing the real estate market.
   (b) **Demand of Property:** The factors affecting the demand of the property market are: population, individual income, users' taste and preference, behavioural factor, motivational and psychological factors. The factors affecting the demand help in the demand segmentation of property market. The property market can be segmented through various segments suh as demographic, geographic, psychographic and behavioural and income segmentation.
   (c) **Affordable Housing:** With a growing populace, the demand for housing has been on a steady rise and is expected to further increase. Where earlier the focus was on luxury and mid-segment housing, the concentration is slowly shifting to affordable housing.
   (d) **Infrastructure Development:** Sound infrastructure is one of the key factors that drives real estate growth. Enhanced connectivity via railways, air, roads and proximity to medical facilities, educational institutions, entertainment hubs, retail market, business centres, schools, retail outlets etc. accelerate real estate prices as these are the most preferred aspects for a buyer to choose a property.
   (e) **RERA:** The Real Estate Regulation and Development Act (RERA), 2016 is an act of the Parliament of India, which seeks to protect home- buyers as well as help boost investments in the real estate industry. Implementation of RERA, GST and the Benami Property Act has brought in the much-needed transparency and accountability; these acts have also given home buyer rights and protection while conducting a property transaction. In addition, RERA has put the onus on the builders for timely delivery of projects, pricing flexibility and payment structures.
   (f) **Home Loan Rates:** Home loan rates play a crucial role in the demand for housing projects; higher rates deter buyers, whereas flexible rates mean an increase in demand. Attractive home loan rates and tax relief on home loan interest announced in the current budget will help stimulate demand for affordable housing and also attract first-time homebuyers.
2. **Challenges Faced by the Property**
   (a) **Economic Contraction:** A weakening economy can hamper demand for real estate, which can put downward pressure on the performance

of existing commercial properties. This could negatively affect real estate, particularly investors focused in the types of properties, industries, or geographical regions that are most severely harmed in an economic downturn.

(b) **Rising Interest Rates:** Rising interest rates can signal a strong, growing economy, which often suggests that real estate is expected to continue to perform well.

(c) **Inexperienced Management:** With the proliferation of REITs in recent years, there is an increased likelihood that some of these organizations are being managed by leadership teams that lack sufficient knowledge and experience in real estate, finance, underwriting and other disciplines necessary to successfully run these complex organizations in the case of a market downturn.

3. **Critical Success Factors of Property**

(a) **Understanding the Economy and Market Research:** There are a lot of factors in measuring economic health, such as GDP, business activities, prices of commodities, etc. Therefore, it is important to be aware of the market cycle of the economy, as every kind of business is sensitive to the economy where it stands.

(b) **Relationship Building:** A good communication skill is a must for a real estate investor to become successful. He/she must know how to manage relationships between the two important parties – the sellers and the buyers, as well as to other organizations and businesses involved in the process. It is important for one to establish strong networking relationships to these entities for better understanding.

(c) **Finding Ways to Generate Income out of the Property Investment:** Obtaining a certain property is not the end of task. A property owner needs to put in efforts and research to earn money out of the purchased property

4. **Responsibility Centres for Property**: The four types of responsibility centres are revenue centres, cost centres, profit centres and investment centres.

In a revenue centre, the manager has control over the revenues that are generated from the property but not over the costs of the property. In a cost centre, the manager has control over costs but not over revenues generated by the property. In a profit centre, the manager has control over both revenues and costs. The manager concentrates on the profit generated by the property. An investment centre is a component of a business for which the manager has control over revenues, costs and capital assets. This means the manager can not only make decisions regarding generating revenues and controlling costs but also has authority to make decisions regarding assets, such as buying new machines, expanding facilities or selling old assets.

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Check Your Progress

1. What are the key drivers of a property?
2. How do economy and market research affect the commercial success of a property?
3. What do you understand by investment centre?

6.3 ROLE OF PROPERTY IN BUSINESS PERFORMANCE

The real estate function plays an important contribution to overall business performance by using performance measurement to:

1. Provide clarity by offering ongoing objective assessment of the real estate and workplace portfolio's overall status and 'health', and its improvement over time; monitoring the progress of the real estate/workplace strategy implementation; measuring and communicating the impact of changes in business strategy, within individual areas of real estate function responsibility and action
2. Enhance improvement by identifying major potential problems and liabilities for investigation and improvement; identifying signiûcant potential 'good practices' for investigation and dissemination; helping condition management 'behaviours' and actions in line with stated strategy

   The roles of a real estate property in the performance of business are:

   1. It helps in overall growth of the business. A well-performing real estate helps in generating revenue and a good revenue earning property helps in overall growth of the business.
   2. The business performs multiple functions and the real estate performance is one of the critical function of the organization. The sound functioning of property also helps in smooth functioning of other important functions of the business.
   3. The overall performance of the business can also be measured by the performance of property owned by the business.
   4. The real estate performance helps in knowing the changing trends in the market and proper evaluation of performance enables a business to scan the environment and assess the changes affecting the success of the organization.

6.3.1 Performance Evaluation of Property as an Investment Asset

An investment property is real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property, or both. The property may be held by an individual investor, a group of investors or a corporation. An investment property can be a long-term undertaking or a short-term investment. Under a short-term investment, investors often involve in reversing, where real estate is bought, altered or renovated, and sold at a profit within a short time frame. The term 'investment property' may also be used to describe other assets an investor purchases for the sake of future appreciation such as art, securities, land or other collectibles.

The factors that help in the evaluation of investment assets are discussed below:

1. Yields: Yield is an expected income, which an investor generates from an investment in future. Property yield is particularly important in commercial real estate as capital growth rates are not usually as high as the residential market.

   Yield is calculated as a percentage, based on the property's cost or market value, annual income and running costs. It does not take into account how much the property increases in value over time.

   Gross Yield = Annual Rental Income (Weekly Rental × 52)/Property Value × 100

   Commercial properties typically return a much higher yield than residential properties, generating yields upwards of 7% compared to yields of 4–5% in residential.

   The demand for property is one of the key drivers of commercial property yield. When demand is high, the cost of buying an investment property increases. The more you pay, the less yield you get (unless rental income increases in proportion to the purchase price). When yields are decreasing this is often referred to as 'hardening yields'. When demand for property is down, prices fall and yields can increase. When the rent-to-value ratio increases it is referred to as 'softening yields'.

2. **Rate of Return:** Return on Investment (ROI) or Rate of Return is an accounting term that indicates the percentage of invested money that is recouped after deducting associated costs.

   ROI= Gain-Cost/Cost

   where:

   Gain = Investment Gain

   Cost = Investment Cost

   A good ROI on real estate varies by risk tolerance, i.e., the more risk one is willing to take, the higher ROI he/she can expect. Conversely, risk-averse investors may happily settle for lower ROIs in exchange for more certainty.

3. **Capital Gain and Losses:** Capital gain is the profit one earns on the sale of an asset like stocks, bonds or real estate. It results in capital

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gain when the selling price of an asset exceeds its purchase price. It is the difference between the selling price (higher) and cost price (lower) of the asset. Capital loss arises when the cost price is higher than the selling price.

Capital gains can be of two types: Realised and Unrealised.

(a) Realised capital gain can be described as the gain made on an investment that has been sold for a profit.

(b) Unrealised capital gain can be described as the gain on an investment that has not been sold yet but can make profit if sold later.

Capital loss is the reverse of capital gain, i.e., it results in a loss when the investment is sold.

6.3.2 Performance Evaluation of Property as an Operational Asset

Operational properties are used by companies or organizations for functioning of their regular operations such as production, warehouses and offices. The property is owned and used by the owner itself for generating income.

The factors that evaluate the performance of operational properties are as follows:

1. **Location:** Properties that are located in a place where there is accessibility to transport, high location visibility, high accessibility to potential customers, and near similar commercial properties usually attract a higher yield than those in an area where these variables are low.
2. **Lease Term:** Short-term rentals, especially a peer-to-peer lease, usually fetches a higher yield for an investor as it comes with a premium. Even if the rentals on such properties are high, short-term home renters or holidaymakers usually find them with great privacy, spacious and independent compared to hotel rooms.

   Long-term contracts or normal-yield properties attract a fairly low yield level. Leased properties that have short-term rents, whether daily, weekly or monthly, usually experience a significant rise in yields.
3. **Interest Rates:** Interest rates are one of the factors that affect two variables in yield determination: income and property cost. On one hand, a rising interest rate can indicate that the economy is steadily growing to imply an increase in occupancy rate and rent. On the other hand, an escalating rate causes the cost of acquiring a commercial property to increase.
4. **Tenancy:** Tenants are a crucial element in any commercial real estate investment as they are the ones that provide the income. There are various kinds of tenants that occupy commercial real estate properties such as retailers, manufacturers, office businesses and multifamily.

Therefore, manufacturers and industrial clients, give a lot of income and their yield is higher than office businesses and retailers.

5. **Infrastructure:** The kind of infrastructure around a place can determine the yields that a property investor can obtain. Infrastructure is basically the things that enable various essential services to continue so that there are productivity, employment and economic growth.
6. **Economic Environment:** The economic sphere of a place can determine the amount of yield a property investor is able to get. In places where the rate of businesses operating is high, there is usually a high demand for commercial spaces. Due to the high demand of favourable commercial spaces where a business can carry out various activities, the spaces are usually scarce. Therefore, in such areas, commercial property owners will have to charge high rents, which will translate to high yields.

Check Your Progress

4. What is an investment property?
5. Define Return on Investment (ROI).
6. What are the two types of capital gains?

6.4 PROPERTY LIFE CYCLE (FOR RESIDENTIAL AND COMMERCIAL)

A property cycle is an order of regular events imitated in demographic, economic and emotional factors that affect supply and demand for property then influencing the property market. In general there are three phases of a property life cycle: Boom, Slump and Recovery.

Boom Phase

When the Boom phase starts most people fail to believe the boom will last and think it is just a short-term variance because they do not have the background of understanding the property cycle.

Observations of Boom Phase are:

1. There is a rise in rent, which puts pressure on the tenants.
2. The selling time of property reduces.
3. There is a rise in property prices.
4. Revenues fall as prices rise equivalently more than rents rise.
5. There are a few forced sales.
6. There is easy availability of finance as there are many sources lending money in the market.

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7. People start spending more in purchasing consumer items such as televisions, refrigerators or holidays.
8. Many property seminars are organised to attract more investment.
9. The rise in demand of property and easy affordability turns media to focus on the property market.
10. There is a lot of discussion about how this boom will never end i.e., "it is different this time" and expectations that there will be no subsequent slump phase.

Slump Phase

The slump phase generally starts with a lengthy period of time before most people realise the property market is in the slump phase, as there is a delay between the shifting trends of the "key drivers" and the impacts that are evidenced in the property market. It is the longest phase in the property cycle. The longer and bigger the preceding boom, the longer and harder the subsequent slump is likely to be. In contrast to popular opinion, property values do not necessarily fall during a slump, values may simply stand for a lengthy period.

Observations of Slump Phase are:

- The vacancy rate of rental properties increases.
- There is a decrease in cash flow.
- There is no increase in property price, it is stagnant or only falls.
- The selling time of property increases.
- There is increase in forced sales.
- There is a difficulty in obtaining finance.
- There is much "doom and gloom" about property values being too high in the media.
- Many property investors experience lower cash flow and sell down their property portfolios to some degree, or completely.

Recovery Phase

The recovery phase is always much shorter than slump or boom phases.

Observations of Recovery Phase are:

- There is increase in rent and cash flows.
- Property selling time reduces than slump phase.
- There is increase in prices.
- There is confusion in media about the sustainability of property market.
- Many potential property purchasers delay buying because they evidenced value falls or a slow market in the preceding slump.

6.4.1 Residential property

The three stages in the property life cycle of a residential property are:

1. Acquisition Phase
2. In-Service Phase
3. Disposal Phase

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Acquisition Phase

The acquisition phase occurs during the requisition/purchase order process. During this time, the following is completed:

- **Pre-Purchase Screening:** It is the checking of the similar properties available in nearby areas. If a new property is identified then there is checking of owner or the custodian of residential property.
- **Asset Acquisition:** The property is actually being purchased.
- **Tagging and Identification:** There is transfer of ownership rights to the new owner of the property.

Common ways of acquiring property are:

- **Purchase:** The first way of acquiring property is by purchasing it directly from other party in consideration of some money.
- **Evaluations/Loans/Leases/Transfers:** The next way is by acquiring through the evaluation process, loans or on lease agreement and sometimes through transfer by any other person.
- **Donations and Gifts:** It is a way to acquire property when the property is gifted by someone or being donated by some party.

In-Service Phase

The in-service phase occurs throughout the performance period of the asset. At this time, the property is used by the property user. Costs incurred during the in-service phase include:

- Utilisation and maintenance
- Movement/location of equipment
- RMAs
- Physical inventory

Excess Phase

The excess phase begins when the asset is no longer needed. Common ways how a property is excessed are:

- Re-use or transfer
- Sold to Surplus property sale
- Trade-in toward new purchase

6.4.2 Commercial Property

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The phases of commercial property are of follows:

Phase One: Acquisition

The first step involves acquiring an asset. There is evaluation of commercial real estate investments by building a comprehensive understanding of market dynamics, historical performance of a given property and the price at which the asset can be purchased. After a diligent evaluation, the investor decides to acquire an asset in one of the targeted asset classes, which include multifamily, office, or hotel properties.

The real estate investment and target market strategy plays a critical role during the acquisition phase. It determines how to identify and execute on attractive opportunities to generate outsized risk-adjusted returns for the investors. Another critical component of the acquisition phase is conventional due diligence, a process that includes investigating and verifying information about an asset. The key components of due diligence may include, for example:

- A building condition audit to identify any deferred capital needs;
- An environmental review;
- Detailed analysis of historical operating costs, leases, and property taxes; and
- Examining proper permits and zoning.

During the acquisition phase, a business plan is developed to increase the value of the property over time and generate stable cash flow for investors. A typical plan may include steps to assess local market demand, estimate the costs and revenue potential of certain property improvements, and evaluate opportunities for new management to enhance revenues or better manage expenses. As this is the initial phase of the asset lifecycle, it carries the most "unknowns" for investors and is considered to be a higher-risk/higher-return stage.

Phase Two: Value-Add

The value-add phase, begins with execution of the business plan and upgrading the property with the aim of increasing its value and net operating income. These efforts may include significant changes, such as making physical improvements to the asset that will allow it to command higher rents, working to lease vacant space to high-quality tenants, or finding ways to improve how the building is managed and operated through increased revenue and lower operating expenses. The value-add phase requires experience and innovation to identify an asset's potential, along with discipline and know-how to effectively execute upgrades that deliver maximum results. In some cases, adding value to an asset may take years to implement successfully — an important reminder of why commercial real estate is best considered as a long-term investment.

Phase Three: Stabilisation

Once major renovations are complete, then the focus shifts to understanding how the upgrades might attract tenants and impact the asset's value. During stabilisation, the focus shifts to more limited capital organization and how to maximise property's cash flow or net operating income. Upon stabilisation, the risk profile of the asset has changed and investors should enjoy more predictable cash flow along with lower risk and slightly reduced return expectations.

Check Your Progress

7. What is a property life cycle?
8. What do you understand by the slump phase?

6.5 CONCEPT OF BENCHMARKING

Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, also called "best in class." The objective of benchmarking is to identify internal opportunities for improvement. There are two basic kinds of improvement opportunities: Continuous and Dramatic. Continuous improvement is incremental, involving only small adjustments to gain ample advances. Dramatic improvement can only come about through reengineering the whole internal work process. Benchmarking will point out what changes will make the most difference, but it is up to you to actually put them in place. Benchmarking is a simple, but detailed, five-step process:

1. Choose a product, service, or internal department to benchmark.
2. Determine which best-in-class companies you should benchmark against, which organizations you will compare your business to.
3. Gather information on their internal performance, or metrics.
4. Compare the data from both organizations to identify gaps in your company's performance.
5. Adopt the processes and policies in place within the best-in-class performers.

Check Your Progress

9. What is benchmarking?
10. What are the five steps in the benchmarking process?

6.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. The key drivers of property are urban population, property demand, affordable housing, infrastructural development, RERA and home loan rates.
2. There are a lot of factors in measuring economic health, such as GDP, business activities, prices of commodities, etc. Therefore, it is important to be aware of the market cycle of the economy, as every kind of business is sensitive to the economy where it stands.
3. An investment centre is a component of a business for which the manager has control over revenues, costs and capital assets. This means the manager can not only make decisions regarding generating revenues and controlling costs but also has authority to make decisions regarding assets, such as buying new machines, expanding facilities or selling old assets.
4. An investment property is real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property, or both. It can be a long-term undertaking or a short-term investment. Under a short-term investment, investors often involve in reversing, where real estate is bought, altered or renovated, and sold at a profit within a short time frame.
5. Return on Investment (ROI) or Rate of Return is an accounting term that indicates the percentage of invested money that is recouped after deducting associated costs. It is calculated using the following formula:

   ROI= Gain-Cost/Cost

   where:

   Gain = Investment Gain

   Cost = Investment Cost
6. Capital gains can be of two types: Realised and Unrealised.
   - Realised capital gain can be described as the gain made on an investment that has been sold for a profit.
   - Unrealised capital gain can be described as the gain on an investment that has not been sold yet but can make profit if sold later.
7. A property cycle is an order of regular events imitated in demographic, economic and emotional factors that affect supply and demand for property then influencing the property market. In general there are three phases of a property life cycle: Boom, Slump and Recovery.
8. The slump phase generally starts with a lengthy period of time before most people realise the property market is in the slump phase, as there is a delay

between the shifting trends of the "key drivers" and the impacts that are evidenced in the property market. It is the longest phase in the property cycle. The longer and bigger the preceding boom, the longer and harder the subsequent slump is likely to be.

9. Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, also called "best in class." The objective of benchmarking is to identify internal opportunities for improvement.
10. The five steps of a benchmarking process are:
    (a) Choose a product, service, or internal department to benchmark.
    (b) Determine which best-in-class companies you should benchmark against, which organizations you will compare your business to.
    (c) Gather information on their internal performance, or metrics.
    (d) Compare the data from both organizations to identify gaps in your company's performance.
    (e) Adopt the processes and policies in place within the best-in-class performers.

6.7 SUMMARY

- The key drivers of property are urban population, property demand, affordable housing, infrastructural development, RERA and home loan rates.
- Some challenges faced by a retail property include economic contraction, rising interest rates and inexperienced management.
- The critical success of a property depends on a number of factors, including understanding the economy and market research, relationship building, and finding ways to generate income out of the property investment.
- The four types of responsibility centres of a property are revenue centres, cost centres, profit centres and investment centres.
- An investment property is real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property, or both.
- Yield is an expected income, which an investor generates from an investment in future. Property yield is particularly important in commercial real estate as capital growth rates are not usually as high as the residential market.
- The demand for property is one of the key drivers of commercial property yield. When demand is high, the cost of buying an investment property increases.

- When demand for property is down, prices fall and yields can increase. When the rent-to-value ratio increases it is referred to as 'softening yields'.
- Return on Investment (ROI) or Rate of Return is an accounting term that indicates the percentage of invested money that is recouped after deducting associated costs.
- Capital gain is the profit one earns on the sale of an asset like stocks, bonds or real estate. It results in capital gain when the selling price of an asset exceeds its purchase price.
- Capital loss arises when the cost price is higher than the selling price. Capital gains can be of two types: realised and unrealised.
- Operational properties are used by companies or organizations for functioning of their regular operations such as production, warehouses and offices. The property is owned and used by the owner itself for generating income.
- A property cycle is an order of regular events imitated in demographic, economic and emotional factors that affect supply and demand for property then influencing the property market. In general there are three phases of a property life cycle: Boom, Slump and Recovery.
- The longer and bigger the preceding boom, the longer and harder the subsequent slump is likely to be. In contrast to popular opinion, property values do not necessarily fall during a slump, values may simply stand for a lengthy period.\
- The recovery phase is always much shorter than slump or boom phases.
- The three stages in the property life cycle of a residential property are acquisition phase, in-service phase and disposal phase.
- Benchmarking is a process of measuring the performance of a company's products, services, or processes against those of another business considered to be the best in the industry, also called "best in class."
- The objective of benchmarking is to identify internal opportunities for improvement. There are two basic kinds of improvement opportunities: Continuous and Dramatic.

6.8 KEY WORDS

- **The Real Estate (Regulation and Development) Act, 2016**: It is an Act of the Parliament of India which seeks to protect home-buyers as well as help boost investments in the real estate industry.
- **Gross Domestic Product (GDP):** It is the standard measure of the value added created through the production of goods and services in a country

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during a certain period. As such, it also measures the income earned from that production, or the total amount spent on final goods and services (less imports).

- **Investment:** An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in value at some point in the future.
- **Investment Assets:** These are tangible or intangible items obtained for producing additional income or held for speculation in anticipation of a future increase in value. Examples of investment assets include mutual funds, stocks, bonds, real estate, and retirement savings accounts such as 401(K)s and IRAs.

6.9 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Explain in brief any three key drivers of property.
2. What is benchmarking?
3. What are five factors affecting performance of operational property?
4. Difference in the observation of Boom and Slump.
5. Discuss the acquisition process of commercial property.

Long-Answer Questions

1. Explain the performance evaluation factors of a property.
2. Examine the property life cycle of a property.
3. Analyse the property life cycle of residential properties.
4. Discuss the factors for evaluating performance of an investment property.
5. Explain the concept of benchmarking in detail.

6.10 FURTHER READINGS

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UNIT 7 RETAIL PROPERTY

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Structure

7.0 INTRODUCTION

Retail property is a classification of zoning for property that is used for a store, shopping centre or service business. This unit aims to identify the different types of retail properties. There is a detail discussion on what is retail property what are its positive and negative aspects. With a rapid increase in demand, the retail property is gaining importance as well. The unit discusses the factors affecting the increasing demand and the importance of a good property management in the wake of the rising demand. It also explains the need for FSI in the retail sector and what hierarchy is maintained in the sector.

7.1 OBJECTIVES

After going through this unit, you will be able to:

- Identify the different types of retail properties
- Discuss the demand pattern of retail properties
- Understand the importance of effective management in the retail property industry
- Understand the importance of FSI in the retail property industry
- Discuss the importance of retail hierarchy

7.2 CONCEPT OF RETAIL PROPERTY

Retail property is a type of real property used for a store, shopping centre or service business. It is a part of the commercial property market and is usually used for yielding high returns. Such properties are used for the marketing and selling of the consumer goods and services. Retail properties cover a wide range of categories of commercial real estate from individual shops, pop-up shops to big-box stores. They include everything from supermarkets, dry cleaners, cafes, florists, pharmacies, bike shops and fashion stores and so on.

Types of Retail Properties

1. **Malls**: These are the most famous types of retail centres which have enclosed shopping centres. Many stores are located under one roof in a mall. Malls also have spaces for entertainment and food zones, featuring multiple brands under one roof. They can be around 4,00,000 square feet in size; although, sizes may vary according to the permission granted.
2. **Lifestyle Centres:** A property type that started gaining widespread popularity in the 1990s, lifestyle centres are essentially malls without roofs, but not necessarily with a department store as an anchor. With a similar in-line tenant line-up, usually on the upscale end, lifestyle centres range between 1,50,000 square feet and 5,00,000 square feet, though they can go larger. Lifestyle centres can also be characterised by offering full-service-dining options.
3. **Factory Outlets**: Factory outlet is a store run by the manufacturer itself. Such stores sell directly sell goods by the manufacturer to the consumer. A factory outlet is different from other outlets as it contains only the brand manufactured by the factory or the company and does not have offer any other type brand products. Sometimes, these outlets sell damaged goods or discarded goods; such products are sold at low prices.
4. **Power Centres**: At 2,00,000 square feet and up, these are generally the home of big-box stores, such as discounters, home-improvement retailers and large specialty chains. Some examples include Walmart, The Home Depot, Best Buy and Dick's Sporting Goods. Fast-food chains and other eateries are often found on pad sites in their parking lots.
5. **Community Centres**: They are referred as strip malls. Their size ranges between 1,25,000 square feet to 4,00,000 square feet. They have a grocery store and can also have a discounter and large specialty shops mixed with convenience retailers, such as drugstores.
6. **Neighbourhood Centres:** They are a smaller version of community centres. These centres are typically referred to as grocery-anchored properties, along with other convenience retailers. They run up to 1,25,000 square feet.
7. **Convenience Centres**: These are very small properties that are less than 30,000 square feet in size, and filled with convenience-based retailers, such as dry cleaners, nail salons, drug stores and other types of shops, where customers are looking for a quick purchase or service.

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Retail properties have certain benefits. For instance, they provide high yields and the retailer can earn large amount of income. Retail properties are taken on lease for longer period as compared to residential properties and it certainly benefits the owner of the property. Retail properties are cost-effective as they demand very low maintenance. However, the proper caution needs to be exercised before acquiring retail properties as it requires regular updating of skills, knowledge and satisfying the needs of the consumers. Retail properties require high investment and there is continuous change in the consumer patterns and demographics.

Check Your Progress

1. Define real property.
2. What are some of the benefits of a real property?

7.3 IMPORTANCE OF RETAIL PROPERTY MANAGEMENT

Let us discuss the importance of retail property management.

1. Easy Lease Process

Lease process requires a specialised knowledge and there is always difficulty in understanding which property requires which method of leasing. A good retail property management helps in easing down the lease process of retail property. The manager needs to be involved in the new lease negotiation with new tenants. Retail property management helps in knowing nearby property rent and the market type. Knowing the correct form of lease negotiations will help in increasing the company's income.

2. Arrears Management

Nowadays, arrears management and recovery is a part of the quality property management service. Monitoring rent payments is one important task for any manager; knowing how to recover unpaid monies is another.

3. Rent Collection

Rent collection should be on time in accordance with the tenant lease. Rent collection dates are very important for leasing process. Rental types can be gross or net rent; most particularly the recovery of outgoings has an influence on the rent type chosen. Choosing the right rent type based on the industry standards relative to the property will help your chances of leasing the property.

4. Recovering the Outgoings

Outgoings are the cost of running a property. Some of the outgoings can be recovered as part of leasing the premises. A good property management knows how to recover the outgoings in the best possible manner and in accordance with the terms of the lease.

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5. Controlled Maintenance

A good property management helps in controlling the regular maintenance cost. The property manager maintains a budget for the maintenance work, which includes the income and expenditure of the company. Effective financial control helps in effective management of retail property.

6. Professional Property Design

Code compliance relates to the essential services and design of the property. There is need of experts to help with the rules and regulations that apply to the property design and code compliance.

7. Tenant Communication

Tenant communication is always necessary for effective property management and for stability of property from the perspective of tenant mix. Good tenant communication reduces the vacancy rate in any property.

Check Your Progress

3. What is the importance of controlled maintenance expenditure in property management?
4. List any two benefits of retail property management.

7.4 INCREASING DEMAND OF RETAIL PROPERTY

With increase in the population, the demand of the retail property has also increased. The factors which have caused an increase in demand of retail property are discussed below:

1. **Consumption Level:** With an increase in population and housing areas, people are looking for residential places in the remote areas of city too. The consumption level of people has most significantly increased the level of demand of retail property as people are demanding more goods and services. This increasing demand and rising population in urban areas has consequently increased the demand of retail property setup, leading to the construction of shopping malls and complexes in urban areas.
2. **Government Policies:** Government introduces certain policies that increase the supply of money in the market. It works regularly for availability of houses, under which many schemes like HOUSING FOR ALL. With an increase in the number of housing societies, there is also an increase in demand of retail property of that country. Furthermore, the availability of finance in market also helps people to invest and start new businesses.

3. **Proliferation of Retail Brands**: Recently there has been a proliferation of retail brands in the market and this has increased the demand of construction of more malls and shopping centres to provide space for brands.
4. **Development of Infrastructure:** The government's developmental projects also play an important role in the development of retail properties as these projects focus on the increase in income generation of the area and retail properties are a good source of income generation.

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7.5 FLOOR SPACE INDEX

Floor Space Index (FSI) is the ratio of building total floor area to the size of the piece of land upon which it is built. FSI is also referred to as the limits imposed on such a ratio through zoning. FSI is set by the norms of the National Building Code. A fee is paid to the government for the construction, which is known as the FSI fees.

The formula for calculating the FSI is:

FSI = Gross Floor Size/ Area of the Plot

FSI is calculated due to following reasons:

1. FSI is important for zoning the urban density. 'Urban density' is a term used in urban planning and it means the number of people inhabiting in an urban area. This helps in understanding the functioning of the urban area. It is regulated by the municipal or local authorities for the calculation of urban density.
2. The FSI norms are set to put limit on the construction for availing the space for ventilation and safety.
3. It helps in controlling the increasing number of buildings especially in metro cities. Higher FSI for an area indicates greater building volume.
4. FSI limits also help in regulating vertical building growth and living conditions, while accommodating the growing population.

Check Your Progress

5. List any two factors affecting the demand of retail property.
6. What do you understand by the term 'Floor Space Index'?
7. What is the formula for calculating FSI?

7.6 RETAIL HIERARCHY

Retail hierarchy is the classification and ranks of the persons or community based upon the carrying capacity for certain types of retail stores, and the distance

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shoppers are willing to travel to retail destination. There are three levels of retail hierarchy:

1. Retail Strips
2. Shopping Centres
3. Power Centres

Fig 7.1 *Three levels of retail heirarchy*

Retail Strips

They are chain stores in an open area, set in a lined manner at a place. They are famous for their functional specialisation. These stores are specialised in one type of economic activity and distinctive marketing. The size of retail strip is measured in the floor size area or the number of stores. The smaller strips often begin as convenience centres serving a local market, then expand to serve more extensive markets, and perhaps even specialise in a specific market that draws customers from across the metropolitan region. Many of these traditional strips were originally oriented toward the needs of the pedestrian shopper, and later partially or entirely reshaped to accommodate automobiles. By contrast, most of the retail strips built over the past 60 years are located in the suburbs, geared towards the suburban shopper with an automobile, and parking has always been provided.

Shopping Centres

Shopping centres consist of enclosed large-size shopping malls or shops in a shopping complex mainly for the local customers. The International Council for Shopping Centres (ICSC) defines a shopping centre as a retail property planned, built, owned, and managed as a single entity, comprising commercial rental units and common areas, with a minimum size of 10,000 square feet.

Power Centres

A power centre is a large outdoor shopping mall that usually includes three or more "big box" stores. This type of property might include smaller retailers and restaurants that are either free-standing or located in strip plazas and surrounded by a shared parking lot. Power centres are built for the convenience of motorists.

Unlike traditional indoor shopping malls and separate big box stores, power centres often have distinctive architectural features.

Check Your Progress

8. What are the three levels of retail hierarchy?
9. What are retail strips?

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7.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Retail property is a type of real property used for a store, shopping centre or service business. It is a part of the commercial property market and is usually used for yielding high returns.
2. The benefits of a retail property include high yields and large amount of income. Retail properties are taken on lease for longer period as compared to residential properties and it certainly benefits the owner of the property. Retail properties are cost-effective as they demand very low maintenance.
3. Effective financial control helps in effective management of retail property, and a good property management helps in controlling regular maintenance costs. The property manager is responsible for maintaining a budget for the maintenance work, which includes the income and expenditure of the company.
4. Retail property management has several benefits, including an easy lease process and arrears management.
5. Two factors affecting the demand of retail properties are:
   (a) Consumption level
   (b) Proliferation of retail brands
6. Floor Space Index (FSI) is the ratio of building total floor area to the size of the piece of land upon which it is built. FSI is also referred to as the limits imposed on such a ratio through zoning. FSI is set by the norms of the National Building Code.
7. The formula for calculating the FSI is:

   FSI = Gross Floor Size/Area of the Plot
8. The three levels of retail hierarchy are:
   (a) Retail Strips
   (b) Shopping Centres
   (c) Power Centres

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9. Retail strips are chain stores in an open area, set in a lined manner at a place. They are famous for their functional specialisation. These stores are specialised in one type of economic activity and distinctive marketing. The size of retail strip is measured in the floor size area or the number of stores.

7.8 SUMMARY

- Retail property is a type of real property used for a store, shopping centre or service business. It is a part of the commercial property market and is usually used for yielding high returns.
- They include everything from supermarkets, dry cleaners, cafes, florists, pharmacies, bike shops and fashion stores and so on.
- Retail properties have certain benefits. For instance, they provide high yields and the retailer can earn large amount of income.
- These properties require high investment and there is continuous change in the consumer patterns and demographics.
- Lease process requires a specialised knowledge and there is always difficulty in understanding which property requires which method of leasing. A good retail property management helps in easing down the lease process of retail property.
- Monitoring rent payments is one important task for any manager; knowing how to recover unpaid monies is another.
- Rent collection should be on time in accordance with the tenant lease. Rent collection dates are very important for leasing process.
- A good property management knows how to recover the outgoings in the best possible manner and in accordance with the terms of the lease.
- Tenant communication is always necessary for effective property management and for stability of property from the perspective of tenant mix.
- With increase in the population, the demand of the retail property has also increased. The factors which have caused an increase in demand of retail property include consumption level, government policies, proliferation of retail brands and development of infrastructure.
- Floor Space Index (FSI) is the ratio of building total floor area to the size of the piece of land upon which it is built. FSI is also referred to as the limits imposed on such a ratio through zoning.
- It is set by the norms of the National Building Code. A fee is paid to the government for the construction, which is known as the FSI fees.
- Retail hierarchy is the classification and ranks of the persons or community based upon the carrying capacity for certain types of retail stores, and the distance shoppers are willing to travel to retail destination.

- There are three levels of retail hierarchy:
    - o Retail Strips
    - o Shopping Centres
    - o Power Centres

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7.9 KEY WORDS

- **Vacancy Rate:** The vacancy rate is the percentage of all available units in a rental property, such as a hotel or apartment complex, that are vacant or unoccupied at a particular time.
- **Property Management:** Property management is the overseeing of residential, commercial and/or industrial real estate, including apartments, detached houses, condominium units, and shopping centers.
- **Floor Space Index:** Floor space index, also known as floor area ratio (FAR), is the maximum area that can be constructed on a plot of land.

7.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the cautions to be kept in mind before investing in retail property?
2. List any four benefits of retail property management.
3. What are shopping centres?

Long-Answer Questions

1. Explain the concept of retail property.
2. Describe the need of effective management of retail property.
3. Discuss the impact of increasing consumption level in the retail property industry.
4. Explain FSI and its purpose.
5. Analyse and briefly discuss the three levels of retail hierarchy.

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UNIT 8 MANAGING RETAIL PROPERTY

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Structure

8.0 INTRODUCTION

This unit discusses the need and ways to manage retail properties. It discusses in detail various ways to manage a retail property, including fixation of tenant mix, risk management, budgeting and forecasting. The unit also identifies how retail properties can be classified on the basis of pattern, ownership and merchandising.

8.1 OBJECTIVES

After going through this unit, you will be able to:

- Describe the need of management of retail properties
- Analyse different ways of effective management of retail properties
- Identify the categories of retail properties

8.2 NEED OF MANAGING RETAIL PROPERTIES

There are many aspects of retail properties that need to be managed effectively. Recent trends of the property market shows the impact of good management in the performance of property and investment ratio in the property market. Local trends and patterns help in understanding the changes in property returns and investment performance that will require adjustments. Property managers adjust their business plans for all assets to know the trends and patterns. Effective

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management of retail property is necessary to study the trends in the property market.

1. **Retail Sales:** Retail sales is an important trend figure to be observed while managing a retail property as it defines the type of property a tenant needs; it also impacts rent and occupancy that a tenant can pay. Due to the changes in shopping habits of the people, there is much change in the forms of retail; some retail segments are slowing and some are strengthening. The effective management of retail property helps in adapting to the changes quickly and refining tenant mix activities and shopping centres.
2. **Leasing Enquiries:** Leasing enquiries refer to understanding what tenants are looking for and what they are prepared to pay by way of rent and occupancy costs for quality premises in good locations. Managing a retail property helps in studying the competition factor in the retail sector.
3. **New Property Developments**: Newer properties shift the rents and the vacancy factors in a region. A property manager must look for upcoming developments and predict how they could attract or change the tenant movement in the region.
4. **Vacancy Rates:** The vacancy rate is the percentage of all available units in a rental property that are vacant or unoccupied at a particular time. The vacancy rate changes from one geographic area to other geographic area because of the sentiments of business community, customer and population, growth, and available finance and resources. Older properties will suffer vacancies more than the newer properties and renovation requirements in the older properties may help in the planning process with vacancies.
5. **Tenant Feedback**: The management of retail property helps in knowing the feedbacks of tenants and this will help the property owners to know the conditions of the present property market.
6. **Maintenance Costs**: In managing a retail property, there are two types of maintenance to be watched and allowed: Planned maintenance and Unplanned maintenance. The maintenance cost helps in the budgeting and forecasting of the property.
7. **Occupancy Cost**: Occupancy costs are the costs related to occupying a space, including rent, real estate taxes, personal property taxes, insurance on building and contents, depreciation, and amortisation expenses. These are generally higher in new entrants to a market due to the escalating real estate prices.
8. **Business Sentiment**: The commercial and retail property market is driven largely by business sentiment, corporate success and or sales, and the local population stability and growth. The relationships are linked; therefore, a property manager should look for changes and trends in those indicators.

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8.2.1 Ways to Manage Retail Properties

1. **Leases and Occupancy Documentation**: Tenancy documents differ amongst different properties. A deep and meaningful review is done for all the 'paperwork'. A property manager must review all the lease documents, capturing the critical dates and rental information into a software diary system or property management software.
2. Fixation of Tenant Mix: Any property having many tenants requires fixing of appropriate tenant mix. Some tenants are better than others from an investment outlook, so there is need to evaluate importance and occupancy strength with each tenant as a part of the property review. A proper manager must identify weaknesses in occupancy, devise a plan to replace or move the tenant as appropriate at the right time in the future to suit the investment.
3. **Cash Flow**: The flow of income from the property will be critical to the investment performance. The net income stream will change for the asset over time to improve the property life cycle in the market. The stability of cash flow over time should improve for the client in realistic and relevant ways.
4. **Maintenance**: A property manager must review physical aspects of the property for maintenance and repairs. He/she must inspect elements of risk and damage that can be a threat to occupancy or public safety. They must also develop an understanding of the building codes and safety codes that apply to the property in its design and as part of its everyday function. Maintenance and safety codes will change from time to time in the building so a property manager must review the property and all things for current building code agreement.
5. **Risk Management**: Risk factors can be identified early and fixed before they affect the occupancy or financial performance of a property. Risk management involves working with the maintenance contractors within the building to understand where property upgrades and cost controls can occur. A presented process of property management and maintenance will help reduce the risk levels within the property over time.
6. **Budgeting and Forecasting**: A budget is something that applies to both income and expenditure over time. The forecasting process is an extension of the budget given current cash flows and known changes to cash flows over time. Budgeting and forecasting is of regular nature in property management to ensure the investment control.
7. **Property Stability:** Property stability is a factor of strategy and awareness. While vacancies will always be an issue for some landlords and properties, strategies to provide stability will always be available. Stability comes from a fine balance across leases, tenants and risk management.

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8. **Landlord Targets and Reporting**: Every property landlord has targets and reports to consider. These reports cover income, expenditure, forecasting, lease detail, tenant mix changes and tenant meetings. A fully informed client is a client that you can work with.

> **Check Your Progress**
>
> 1. What is vacancy rate?
> 2. What do you understand by the term 'occupancy cost'?
> 3. What does risk management of a property involve?

8.3 MARKET AREA CLASSIFICATION

Market can be categorised on the basis of pattern, ownership and merchandise. The following table lists market classification:

Pattern Classification	Ownership Classification	Merchandise Classification
• Auto Dealers • Electronics • Apparels • Grocery and Food Stores	• Independent Retailers • Chain Stores • Franchising • Leased Departmental Stores • Vertical Marketing System • Consumer Coopertatives	• Convenience Stores • Super Markets • Hpermarkets • Speciality Stores • Departmental Stores • Off- Price Retailers • Factory Outlets • Catalogue Showrooms

Fig 8.1 *Market Classification*

8.3.1 Pattern Classification

Let's discuss pattern classification in this section.

(a) **Auto Dealer:** Auto dealers are a type of retail shops that sell two-wheeler and four-wheeler vehicles. They are big showrooms for showcasing their retail product. They are direct dealers associated with company and the size of the showroom depends upon the size of vehicles they are trading in. Sometimes the showrooms have separate space for the service centres too. They also have their own office for documentation of the vehicles.

(b) **Electronics**: Electronics and electrical items have either big showrooms or large or medium-sized shops. The shops or showrooms are situated in the malls or they have their separate buildings. Some big electronics have various electronics items, including mobiles, laptops and computers, air conditioners, refrigerators, washing machines and music systems. The showrooms are according to the sizes and requirements of the product to be displayed. They also have offices built in the showroom for documentation work.

(c) **Apparels:** Apparel shops are retail stores selling clothes, jewellery and shoes. These shops vary in sizes according to the product and capital invested. There are showrooms, shops and malls for this retail pattern. The shops are fully equipped with furniture and proper lightings.

(d) **Grocery and Food Store:** They are the most visited retail patterns by consumers, and they are available in small, medium and large sizes. The small-size shops have basic furniture and storage facilities, and deal in less number of grocery products. Large-size stores deal in different types of products, have storage facilities and also have separate office and billing counters.

8.3.2 Ownership Classification

Let us discuss ownership classification in this section.

(a) **Independent Retailer:** An independent retailer is someone who is completely responsible for his/her own business. The retailer owns or has bought an independent store and has built the business from the ground up by assessing all needs of the store, which can include staffing, marketing, merchandising, sales, etc. They are independent decision takers, are confined to the local area and do not have big stores.

(b) **Chain Stores:** A chain retailer or a chain store is a group of two or more outlets carrying the same kind of products group. They are owned and controlled cooperatively and usually supplied from one or more central warehouses. The main advantage of this retail format is to make retailer enable to bargain well with the suppliers. Another advantage is cost-effectiveness in advertising and sales promotions. Thus, a very small number of stores constitute a chain-store system.

(c) **Franchising**: A franchise is a contractual agreement between a franchiser and the franchisee that allows the franchisee the right to supply its brand (goods and services) exclusively within a defined area, according to a particular format for a specified period of time. The small businesses find it suitable by being a part of a large, multinational firm because the franchiser provides great help to franchisee for locating and constructing the retail store (including interiors and exteriors), developing the goods and services for selling, hiring employees, training, advertising and administering the store effectively. The setup of franchise retail is same like other franchise stores as per the specification of the franchisor.

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(d) **Leased departmental store:** In India, leased departments are an emerging trend in the field of retail business. Most of the famous retail chain stores set up their outlets or extension counters in commercial complexes of residential areas, malls, PVR multiplexes, and public places such as bus terminals, railway stations, metro stations, airports and national highways. The reason behind their popularity is the business and marketing philosophy of the retail chains that ensures the availability of their brands to the consumers near their place of work or home.

(e) **Vertical Marketing System**: A Vertical Marketing System (VMS) is a system in which almost all the members of distribution channel such as producers, wholesalers and retailers work together to fulfil human needs and wants by enabling the smooth flow of goods and services from manufacturer to ultimate consumer.

(f) **Consumer Cooperatives**: Consumer cooperatives are retail outlets owned and managed by its customer members. A group of interested members start retail operations by capitalising money, receiving stock certificates, electing members to run day-to-day activities and sharing the profits on the basis of investment made or certificates held.

8.3.3 Merchandising Classification

Let us discuss merchandising classification in this section.

(a) **Convenience Store**: A convenience store sells limited prepared and ready-to-eat food products, beverages, household staples, tobacco products and periodicals. Convenience stores are small in size, are open for long hours, and, in most cases, are staffed by a relatively small team of cashiers, stock workers and managers.

(b) **Super Market**: A supermarket is a self-service shop offering a wide variety of food, beverages and household products, organised into sections. It is larger and has a wider selection than earlier grocery stores, but is smaller and more limited in the range of merchandise than a hypermarket or big-box market.

(c) **Hypermarket**: A hypermarket is a retail store, which is a combination of a department store and a grocery supermarket. Often a very large establishment, hypermarkets offer a wide variety of products such as appliances, clothing and groceries. They sell a variety of products from small size to large size. They offer a one-stop shopping destination. Some of the hypermarkets include Walmart and Super Centre.

(d) **Speciality Store**: These stores focus on selling some special products such as office supplies, medical supplies and men's or women's clothing, etc. They deal with only one type of product in which they specialise, and do not possess variety.

(e) **Departmental Store**: Departmental stores are large retail outlets having a number of departments under one roof working by centralised control. They sell a variety of products, from a needle to a car. There are departments working under one roof, which are specialised in particular type of trade.

(f) **Off-Price Retailer:** Off-Price retailers sell high-quality products at cheap prices; they deal in trading of second-hand goods and off-season items. These retailers buy manufacturer irregulars, seconds, closeouts, cancelled orders, overruns, goods returned by other retailers and end-of-season closeout merchandise.

(g) **Factory Outlets**: Factory outlet is a store run by the manufacturer itself. These stores directly sell products by the manufacturer to the consumer. A factory outlet is different from other outlets as it contains only the brand manufactured by the factory or the company and does not have any other type of brand products. Sometimes these outlets sell damaged goods or discarded goods. They sell the goods to the consumer at low prices.

(h) **Catalogue Showroom:** Catalogue showrooms are retail outlets that deal in hard goods such as electronics, jewellery, house ware, etc. They are located inside or in close immediacy to their warehouses. The goods are not displayed to save costs instead the customers have to browse a catalogue to place order for any specific item. These goods are later collected from the warehouse and sold to the customer. The price range is low as only a narrow range of goods is displayed. These showrooms are also located in low-cost areas.

Check Your Progress

4. What is a franchise?
5. What do you understand by a vertical marketing system?

8.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The vacancy rate is the percentage of all available units in a rental property that are vacant or unoccupied at a particular time. The vacancy rate changes from one geographic area to other geographic area because of the sentiments of business community, customer and population, growth, and available finance and resources.
2. Occupancy costs are the costs related to occupying a space, including rent, real estate taxes, personal property taxes, insurance on building and contents, depreciation, and amortisation expenses.
3. Risk factors can be identified early and fixed before they affect the occupancy or financial performance of a property. Risk management involves working

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with the maintenance contractors within the building to understand where property upgrades and cost controls can occur.

4. A franchise is a contractual agreement between a franchiser and the franchisee that allows the franchisee the right to supply its brand (goods and services) exclusively within a defined area, according to a particular format for a specified period of time.
5. A vertical marketing system (VMS) is a system in which almost all the members of distribution channel such as producers, wholesalers and retailers work together to fulfil human needs and wants by enabling the smooth flow of goods and services from manufacturer to ultimate consumer.

8.5 SUMMARY

- There are many aspects of retail properties that need to be managed effectively. Recent trends of the property market shows the impact of good management in the performance of property and investment ratio in the property market.
- Vacancy rate is the percentage of all available units in a rental property that are vacant or unoccupied at a particular time.
- In managing a retail property, there are two types of maintenance to be watched and allowed: Planned maintenance and Unplanned maintenance.
- Occupancy costs are the costs related to occupying a space, including rent, real estate taxes, personal property taxes, insurance on building and contents, depreciation, and amortisation expenses.
- There are various aspects of managing a retail property. Some of them are proper documentation, fixation of tenancy mix, cash flow, budgeting and forecasting, and risk management.
- Retail properties can be categorised on the basis of pattern, ownership and merchandise.
- A franchise is a contractual agreement between a franchiser and the franchisee that allows the franchisee the right to supply its brand (goods and services) exclusively within a defined area, according to a particular format for a specified period of time.
- A Vertical Marketing System (VMS) is a system in which almost all the members of distribution channel such as producers, wholesalers and retailers work together to fulfil human needs and wants by enabling the smooth flow of goods and services from manufacturer to ultimate consumer.
- Consumer cooperatives are retail outlets owned and managed by its customer members.

8.6 KEY WORDS

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- **Tenant Mix:** Tenant mix is 'a combination of factors, including the proportion of space or number of units occupied by different retail/service types, as well as the relative placement of tenants in the centre'.
- **Market Sentiment:** It refers to the overall attitude of investors toward a particular security or financial market. It is the feeling or tone of a market, or its crowd psychology, as revealed through the activity and price movement of the securities traded in that market.
- **Vertical Marketing system (VMS):** VMS comprises of the main distribution channel partners- the producer, the wholesaler and the retailer who work together as a unified group to serve the customer needs.

8.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the difference between vacancy rates and occupancy rates?
2. How does tenancy mix help in property management?
3. What is the difference between hypermarket and super market?
4. What is the benefit of using chain stores?
5. What are off-price retailers?

Long-Answer Questions

1. Examine the growing importance of managing retail properties.
2. Describe the ways of effective management of retail property.
3. Explain different types of retail properties on the basis of merchandising and ownership.
4. Differentiate between chain stores and leased departmental stores.
5. Analyse the classification of retail properties on the basis of patterns?

8.8 FURTHER READINGS

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BLOCK III:
LEASING AND VALUATION RETAIL PROPERTY

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UNIT 9 LEASING RETAIL PROPERTY

Structure

9.0 INTRODUCTION

A lease is a contract under which one party, the lessor, gives another party the exclusive right to use the asset usually for a specified time in return for the payment of rent. This unit discusses the process of leasing the retail properties, and its various elements. It analyses how the concept of location, needs of prospects, types of lease for each property, rent and the non-complete clause affect a tenant mix. It also discusses the regulations for tenant operations.

9.1 OBJECTIVES

After going through this unit, you will be able to;

- Describe the concept of leasing
- Discuss the qualifying standards of retail prospects
- Understand the concept of tenant mix

- Examine the attributes of a good tenant mix
- Analyse the importance of regulating tenant operations

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9.2 DEFINING LEASING

A lease is a contractual agreement where one party agrees to give a property owned by them to other party in consideration of regular payment known as rent for a fixed period of time. The party that is taking the property on rent is called a 'Lessee' also known as a tenant, while the party giving the property on rent is known as a 'Lessor' also known as the landlord or property owner. A lease is a legal agreement and both the parties can face consequences if they fail to fulfil the terms and conditions of the agreement. The consequences faced by both parties depend upon the conditions of violation of rules.

9.2.1 Leasing of Retail Property

The leasing of retail property has a different procedure than leasing a residential property. There are different types of leases on a retail property. The leasing of commercial properties assigns more responsibility on the tenant and the landlord enjoys great front up profits. Under some leases, the tenant is only responsible to pay the rent, while in some leases the tenant is expected to bear other expenses (property tax, insurance and maintenance costs) as well. Different types of commercial leases are:

1. **Single-Net Leases:** It is a type of commercial lease where the tenant is responsible to pay the property tax.
2. **Double-Net Leases:** This type of lease makes tenant responsible to pay both the property tax and insurance of property.
3. **Triple-Net Leases:** The tenants signing this type of commercial lease are liable to pay the property tax, insurance and maintenance costs.
4. **Gross Leases:** Under this type of lease, the tenant is liable to pay only rent and the other expenses are borne by the landlord.

   The benefits of leasing a retail property for the tenant are:

   1. **Reduced Moving Costs:** Moving into a leased property is less expensive than an owned property. Even the lowest type of property loan requires 10% of down payment adding the cost of loan fees and any third-party payment and other purchase related expenses. On the other hand, a tenant needs to pay only rent and security deposit to acquire a property.
   2. **Low Monthly Occupancy Cost**: A business organisation prefers leased property as it is a month-to-month base of payment and there is 100% deduction in after tax for the lease payments of the companies or the firms.
   3. **Cleaner Balance Sheet:** Lease payment is an off-balance sheet

transaction; it does not affect the assets and liabilities of the business. When the property is being owned, then it has to be depreciated annually and the adjustments are to be done for the tax liability.

4. **Reduced Capital Expenditure**: In the case of an owned property, one cannot move from that place; either the owner has to sell it or he/she has to work on its maintenance and bear the associated costs. However, in the case of a leased property, the tenant can move any time to a new place or a new building and the maintenance has to be borne by the landlord.

Check Your Progress

1. Define lease.
2. What are the different types of leases?

9.3 QUALIFYING RETAIL PROSPECTS

Retail prospects are the conditions or the circumstances for the leasing of the property by the tenant. These are the qualifying standards for the eligibility for a prospective tenant. These conditions are discussed below:

1. **Type of Retail Property**: The type of property is an important factor before leasing commercial property. The elements looked in for the types of property include size of the property and location of the property (outskirts of the city or the main city). Proximity to nearby market and the availability of communication facilities and delivery systems also play a vital role in the demand of the property.
2. **Use of Property**: What is the use of property to the tenant and whether the use matches the tenant mix of property is the next part of standard.
3. **Reason for Leasing**: Reason for leasing the space also determines the conditions for leasing the space. For instance, the space could be leased for a number of reasons, including relocation from another property, for a new start-up or as a second location of an already established business. It is important to know whether the tenant is opening a franchise and the location has been approved by the franchisor. The reference of the previous landlord can also be checked for the reason of relocating.
4. **Special Requirements**: This is the condition provided by the tenant about whether they need any other special requirements in the property such as parking, storefront requirements, specifications of entry gate, etc. This helps the landlord to decide whether he/she is willing to lease the property or not to the particular tenant.
5. **Lease Term**: The lease term is also discussed before leasing a property. It is the duration for which the tenant takes the property on rent from the

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owner. The lease term can be short term, medium term or for long term. Generally the medium term and long term leases are preferred by the owners as it provides them with long run income and earns huge profit.

6. **Budget**: The tenant decides the budget. The points that need to be taken care of while finalising the budget are whether the tenant will be able to pay the other charges or NNN charges associated with property, and if it is a start-up whether the tenant knows about the retail lease charges included in start-up cost.
7. **Time Period of Moving**: The next factor to be decided is that within how much time period the tenant will move to the property, and if the owner has better option in future than he/she can hold the lease of the property.
8. **Finance**: The way of finance acquired by the tenant is also an important point, whether it is loan from bank, what the sources of capital of tenant and are from where they will obtain finance, and whether it is approved by the lender or not.

Check Your Progress

3. What is a lease term?
4. What are the points that a tenant needs to keep in mind while deciding the budget for leasing a retail property?

9.4 TENANT MIX

Tenant mix is the combination of factors such as size of space or number of units occupied by different retail or service types. Tenant mix refers to the combination of business establishments occupying space in a shopping centre to form an assemblage that produces optimum sales, rents, service to the community and financiability of the shopping centre venture. For effective creation of tenant mix, there are some key points that need to be kept in mind such as location of the anchor points, prospects needs, leasing strategy, deciding the rental rates and non-complete clause. Tenant mix is an important element of commercial leasing; it contains the points to be kept in mind while leasing any commercial properties.

The key points that affect a tenant mix are discussed below:

9.4.1 Location of Anchor Points

Anchor points are the different units at a retail property. They include key anchors (theatres, cafes and play zones); fashion anchors; and other anchors (book store or multimedia stores). The location of key anchors should create an effective way of communication; there must be connectivity between different anchor points. Fashion anchors, such as departmental stores or big fashion houses, should be available from start end of retail place till dead end of place. They must be evenly distributed all over the place. Food courts and restaurants should be easily accessible to the consumer. They should have an easy process of delivering and must have space for dining.

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9.4.2 Prospect's Needs

The prospects need of the place required by a tenant is a key factor in determining the tenant mix. The retail prospects needs include the type of property, use of property, reason for space, budget of tenant, lease period and finance facilities of the property. The tenant mix needs to also qualify on the requirements of the prospective tenant need.

9.4.3 Percentage Leases

Percentage lease is a type of lease wherein the lessee pays a base rent plus a percentage of revenue generated from any business done in the same rental premise. In a percentage lease, the landlord receives a percentage of revenue earned from any business in addition to the base rent. Here the base rent is normally lower compared to the normal lease. The low base rent is offset by a higher upside potential associated with percentage lease. The landlord not only shares the profits, but also the losses in the form of reduced rent. This form of relationship is called a quasi partnership.

9.4.4 Negotiating Lease

Negotiating a lease puts the business into position of success. For negotiating the lease, a complete evaluation of lease by the tenant is necessary. The responsibility of tenant is to read all the terms and condition mentioned in the lease agreement. Firstly, the evaluation of the length of lease has to be done to check that the business is in good fit and has a profitable future. Before signing the agreement, it is necessary to compare the rent of nearby properties. The tenant must be aware of the hidden costs a landlord charges from the tenant. The lease should mention the clauses that can be in favour of the tenant, and the tenant can demand those changes in the lease. Lastly, the termination clause must be checked thoroughly.

9.4.5 Setting the Rental Rates

Rent should be high enough to cover expenses, and make a profit, but low enough to attract tenants. There may be special attributes that can be taken into account when setting price levels. For instance, a property with surveillance cameras and security personnel will likely generate a higher rent than an unsecured building. A location that is "convenient to everything" can allow a landlord to charge more than a remote property. Even the quality of tenants can affect the rental amount. "Location, location, location" is built on a theory that real estate seekers desire a combination of convenience, status and appearance. An attractive, safe neighbourhood is more desirable to live in than a rundown area; therefore, tenants can expect a higher rent.

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The most effective way to fill empty space is by charging a comparable rate. The prevailing rate or *market rate* is the amount being charged for similar properties in nearby areas. Commercial property managers typically charge a rate based on the total area of the space. Simply managing the most attractive, updated, convenient property does not guarantee that you can charge a price that is significantly higher than your competitors. Most tenants seek rental units that match what they need, and many times they will sacrifice top-notch amenities for a lower rent price; therefore, landlords must be cautious of charging a payment that is too high compared to neighbouring properties.

Rental rates need to be set on the basis of factors such as size, activity, turnover/margin and location. The level of anchors is always in decreasing order of rent, the activity utility of the anchors differs, and the most used activity has more rate of rent. For instance, food retail, sports and multimedia has low margin rate of rent. The location of the property also decides the rent as the most viewed shop from each corner has more rent and the shop on the dead ends or the corners not easily viewed by the consumers has less rent. Rent setting is a very crucial component in tenant mix, and it decides the budgeting of the tenant. The facilities provided by the landlord also help in setting the rent.

9.4.6 Non-Complete Clause

A non-compete clause is referred to as an exclusive-use clause, which is a lease provision that prevents the landlord from leasing the development premises to a direct competitor of tenant, or to a tenant operating the same kind of business. It protects the tenant from the competition and helps maximising the sales. Non-compete clauses can also maximise the landlord's profits, especially where landlords collect a percentage of sales as a part of the tenants' rent. When exclusivity clauses apply in a development, there is no cannibalising of sales from similar businesses.

9.5 REGULATING TENANT OPERATIONS

There are certain regulations that a tenant has to follow while using a property on rent. These regulations protect the landlord's rights, and also lay the duties of the tenant towards the property he/she is using. Some of these regulations are listed below:

1. It is the responsibility of the tenant to keep the rented property in clean and habitable condition.
2. The landlord has to be informed if any issues arises which can harm the value of the property.
3. Tenants will pay for the repair of the property for the damages caused due

to their negligence.

4. The tenant should pay the rent on time. If the tenant is unable to pay on time, timely negotiation from landlord for the late payment of rent should be done.

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Check Your Progress

5. What do you understand by the term 'tenant mix'?
6. What are retail prospects of a retail property?
7. Define the market rate of a real property.
8. What is a non-compete clause?
9. Mention any two responsibilities of a tenant.

9.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. A lease is a contractual agreement where one party agrees to give a property owned by them to other party in consideration of regular payment known as rent for a fixed period of time.
2. The different types of leases are:
   (a) Single-Net Lease
   (b) Double-Net Lease
   (c) Triple-Net Lease
   (d) Gross Lease
3. A lease term is the duration for which a tenant takes the property on rent from the owner. The lease term can be short term, medium term or for long term. Generally the medium term and long term leases are preferred by the owners as it provides them with long-run income and earns huge profit.
4. While finalising the budget for leasing a property, the tenant should know whether they would be able to pay the other charges or NNN charges associated with the property, and if it is a start-up whether they about the retail lease charges included in start-up cost.
5. Tenant mix refers to the combination of business establishments occupying space in a shopping centre to form an assemblage that produces optimum sales, rents, service to the community and financiability of the shopping centre venture.
6. The prospects need of the place required by a tenant is a key factor in determining the tenant mix. The retail prospects needs include the type of property, use of property, reason for space, budget of tenant, lease period

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and finance facilities of the property.

7. The prevailing rate or market rate is the amount being charged for similar properties in nearby areas. Commercial property managers typically charge a rate based on the total area of the space.
8. A non-compete clause is referred to as an exclusive-use clause, which is a lease provision that prevents the landlord from leasing the development premises to a direct competitor of tenant, or to a tenant operating the same kind of business.
9. The tenant is responsible for:
   (a) Informing the landlord of any issues that can harm the value of the property; and
   (b) Paying for the repair of the property for the damages caused due to their negligence.

9.7 SUMMARY

- A lease is a contractual agreement where one party agrees to give a property owned by them to other party in consideration of regular payment known as rent for a fixed period of time.
- A lease is a legal agreement and both the parties can face consequences if they fail to fulfil the terms and conditions of the agreement.
- The leasing of commercial properties assigns more responsibility on the tenant and the landlord enjoys great front up profits.
- Under some leases, the tenant is only responsible to pay the rent, while in some leases the tenant is expected to bear other expenses (property tax, insurance and maintenance costs) as well.
- Different types of commercial leases are single-net leases, double-net leases, triple-net leases and gross leases.
- The benefits of leasing a retail property for the tenant include reduced moving costs, low monthly occupancy cost, cleaner balance sheet and reduced capital expenditure.
- Retail prospects are the conditions or the circumstances for the leasing of the property by the tenant.
- Some of these conditions include type of retail property, use of property, reason for leasing, special requirements, lease term, budget and finance.
- The lease term is also discussed before leasing a property. It is the duration for which the tenant takes the property on rent from the owner.
- Tenant mix is the combination of factors such as size of space or number of units occupied by different retail or service types.
- It refers to the combination of business establishments occupying space in a

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shopping centre to form an assemblage that produces optimum sales, rents, service to the community and financiability of the shopping centre venture.

- There are some key points that need to be kept in mind such as location of the anchor points, prospects needs, leasing strategy, deciding the rental rates and non-complete clause.
- The tenant mix needs to also qualify on the requirements of the prospective tenant need.
- Percentage lease is a type of lease wherein the lessee pays a base rent plus a percentage of revenue generated from any business done in the same rental premise.
- Negotiating a lease puts the business into position of success. For negotiating the lease, a complete evaluation of lease by the tenant is necessary.
- The tenant must be aware of the hidden costs a landlord charges from the tenant. The lease should mention the clauses that can be in favour of the tenant, and the tenant can demand those changes in the lease. The termination clause must also be checked thoroughly.
- Rent should be high enough to cover expenses, and make a profit, but low enough to attract tenants.
- The most effective way to fill empty space is by charging a comparable rate. The prevailing rate or *market rate* is the amount being charged for similar properties in nearby areas. Commercial property managers typically charge a rate based on the total area of the space.
- Rental rates need to be set on the basis of factors such as size, activity, turnover/margin and location.
- Rent setting is a very crucial component in tenant mix, and it decides the budgeting of the tenant. The facilities provided by the landlord also help in setting the rent.
- A non-compete clause is referred to as an exclusive-use clause, which is a lease provision that prevents the landlord from leasing the development premises to a direct competitor of tenant, or to a tenant operating the same kind of business.
- Non-compete clauses can also maximise the landlord's profits, especially where landlords collect a percentage of sales as a part of the tenants' rent.
- There are certain regulations that a tenant has to follow while using a property on rent. These regulations protect the landlord's rights, and also lay the duties of the tenant towards the property he/she is using.

9.8 KEY WORDS

- **Lease:** It is a contractual arrangement calling for the lessee to pay the lessor for use of an asset. Property, buildings and vehicles are common

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assets that are leased. Industrial or business equipment is also leased. Broadly put, a lease agreement is a contract between two parties, the lessor and the lessee.

- **Rent:** It is a payment made periodically by a tenant to a landlord in return for the use of land, a building, an apartment, an office, or other property.
- **Tenant Mix:** Tenant mix is a combination of factors, including the proportion of space or number of units occupied by different retail/service types, as well as the relative placement of tenants in the centre. A good tenant mix is a variety of stores which work together to enhance the centre's performance and operate successfully as individual businesses.
- **Percentage Lease:** A percentage lease is a type of lease where the tenant pays a base rent plus a percentage of any revenue earned while doing business on the rental premises. It is a term used in commercial real estate.

9.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. How do tenants benefit from leasing a property as opposed to buying one?
2. What do you understand by percentage lease?
3. What are the attributes that need to be kept in mind while setting the rent of a property?
4. What are the responsibilities of the tenant?

Long-Answer Questions

1. Discuss the factors affecting commercial property leasing.
2. Examine the essentials for qualifying the retail prospects for acquiring retail property on lease.
3. Analyse the components of a tenant mix.
4. Examine the factors that help in setting the rent of a property.
5. Discuss the importance of a non-complete clause.

9.10 FURTHER READINGS

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UNIT 10 OVERVIEW OF FINANCIAL ASPECTS OF RETAIL PROPERTY

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Structure

10.0 INTRODUCTION

The unit covers the financial aspects of retail property. It includes the detail explanation of what are the components of financial valuation of property, what are the responsibilities of a retail property manager, components of financial report of real estates, the structures of major rental income items, income and expenses, budgeting and capital expenditure. The unit also includes the role of preservation income in producing capital expenditures, the cash flow of real estates.

10.1 OBJECTIVES

After going through this unit, you will be able to:

- Identify the financial aspects of a retail property
- Discuss the administrative responsibilities of a retail property manager
- Identify the components of financial reports
- Analyse the role of preservation income
- Discuss the importance of monthly cash flow

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10.2 FINANCIAL ASPECTS OF RETAIL PROPERTY

Financial aspects of a retail property include the budgeting, forecasting, profit planning, leverage management, asset management, and resource allocation. Retailing involves a lot of financial investment in terms of merchandise, real estate, infrastructure building investments and human resources; these expenditures need to be managed and optimised for the better operational efficiency and a healthy Return on Investment (ROI). The financial aspects of a retail property include the administrative role of the retail property manager, analysis of financial reports, including rental incomes, expenses, capital expenditure and all other incomes. Proper analysis of financial aspects of the property helps in deciding the budget and analysing the present condition of the property market.

10.3 ADMINISTRATIVE RESPONSIBILITIES OF RETAIL PROPERTY MANAGER

Retail property managers are responsible for controlling and directing operations at properties such as retail spaces and office buildings. They typically manage the day-to-day needs of these properties, including maintenance and custodial tasks, while interacting with tenants to collect and process rent checks, maintain lease agreements, and show spaces to potential lessees. Retail property managers may work at one specific location or may be responsible for several buildings owned by a single property management company. This is a role that requires a high level of organization and the ability to successfully resolve customer service questions and provide a point of contact for tenants and building owners.

A retail property manager should possess certain qualities like good negotiations skills, which is of great need as it is very necessary in updating of lease and negotiations terms that should benefit both the parties. The manager should have good customer service skills; he/she must be able to solve the conflicts and also immediate problem solving of the tenants. A good property manager should possess the knowledge of financial management as it decides the sustainability of the business. Other skills of property manager include good marketing skills, proper organization and multitasking.

The duties and responsibilities performed by a retail property manager are:

1. **Managing Leases:** A retail property manager is the direct contact for the tenants and the prospective tenants. Their responsibility includes the creation and signing of lease documents, update lease if there is any change or the lease is expires and show the available spaces in the property. The manager also needs to manage the negotiation in the lease terms, establishment of expectations for tenant and property owners and also update lease for the retention of tenant.

2. **Direct Maintenance Activities:** Retail property managers are also responsible for conducting maintenance and cleaning activities; and working with third-party service providers to repair and maintain crucial building systems like HVAC, plumbing and electricity. They may negotiate and prepare contracts for long-term maintenance activities and individual projects, and often supervise maintenance projects to ensure that they are completed according to expectations.
3. **Reporting Financial Information:** Retail property managers gather financial information and prepare reports on budgeting, occupancy and overhead costs for maintaining the property. The financial report prepared by the manager helps in calculating the profitability of business and also helps in taking strategic decisions. The property manager needs to submit the financial reports monthly, quarterly, half yearly and annually.
4. **Market Commercial Spaces:** Many retail property managers are also tasked with marketing available commercial spaces to potential clients. This helps to ensure that commercial properties are not sitting empty and that commercial spaces are generating revenue. Retail property managers may advertise available spaces in local publications or online and post signage advertising information about spaces for rent. There are many marketing activities a property manager could use for the effective marketing of a commercial property. These techniques include newspaper advertising, digital advertising, websites, public relations, visual advertising and many more.
5. **Cash Flow Management:** In addition to reporting on financial information, retail property managers also take an active role in cash, flow management establishing budgets and identifying opportunities to reduce overhead costs. They may analyse tenant trends and leases to generate ideas to enhance income and are also frequently responsible for collecting rent payments and paying subcontractors.
6. **Personnel Management:** Frequently, retail property managers also oversee site personnel, including security guards and regular maintenance staff. In this aspect of the role, commercial property managers are responsible for processing payroll, making hiring decisions and conducting employee assessments. They are also responsible for communicating with employees to outline expectations and complete business-critical projects.

Check Your Progress

1. What are the financial aspects of a retail property?
2. What are the direct maintenance activities that a property manager is responsible for?

10.4 FINANCIAL REPORTS

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Monitoring the financial statements of the property is an important aspect in the valuation of a property. The building financial performance should be reviewed on a monthly basis by the asset manager, director of property management, regional manager and property manager. When reviewing financial documents, the Profit and Loss Statement, also known as Income Statement, is one of the most significant among all of the financial documents.

There are two sides of a Profit and Loss Statement or the Income Statement:

1. **Income Items**: These items help in earning the income generating the revenue. These items show incoming cash flow of the business. The income can be classified into revenue income and capital income. Revenue income from the retail property is the income generated from the property on a regular basis. Capital income is a one-time income earned from the property; it is not of regular nature.
2. **Expenses Items:** These are the expenditures incurred on the property for the maintenance of the property or to construct a property. The expenses can also be classified into revenue expenses and capital expenses. Revenue expenses are of regular nature, including repairs. Capital expenditure is the expenditure which occurs once in a year or in a period of more than one year.

   The income statement shows the total revenue generated from the rental property, and it shows the future forecasting of the things in the business.

Table 10.1 *Format of Income Statement or Profit and Loss account*

Expenses	**Amount**	**Income**	**Amount**
To Repairs	*********	By Rent	**********
To Renovations	*********	By Maintenance Charges	**********
To Utilities	*********	By Security Deposits	***********
To Maintenance Expenses	*********	By Fees	***********
To Mortgage	*********	By Fines	***********
To Taxes and Insurance	*********	By Taxes and Insurance Charges	***********
		By Electricity Charges	***********
To Profit (bal.fig.)	***********	By Loss (bal.fig.)	************
	**********		************

10.4.1 Actual Income Items

The income items of the income statement are:

(a) **Rent**: Rent is the amount of money collected by the owner of the retail property from the tenant; it is the main source of income from the retail property for the owner. There are many factors which decide the rent of the property such as type of property, use of property by the tenant, the facilities provided with the property and the location of the property. The rent setting is a process that depends entirely on the factors mentioned above. A commercial property's rent is based on the lease agreement and the term period of the lease. There are different types of leases, and each and every type of lease has its own method of rent calculation.

(b) **Maintenance Charges:** The landlord collects the maintenance charges from the tenant. A retail property or a commercial property demands regular maintenance of various sections of the property such as small damages, painting, furniture repairs and electrical items servicing. As the property is used by the tenant, the tenant pays the maintenance charges, which acts as a sort of income for the landlord.

(c) **Fees**: Fees are the amount collected for any legal paperwork of the property. Mainly during the lease agreement the landlord of the property collects the charges incurred for the lease agreement from the tenant and it is an income of the property owner.

(d) **Fines**: Fines can be termed as the amount charged from the tenant for any misconduct like late payment of rent or physical damage of the property.

(e) **Electricity Charges**: It is the amount of electricity consumed by the tenant monthly. The landlord charges for regular consumption of electricity. It is charged by the per unit charge of electricity.

(f) **Taxes and Insurance Charges:** The taxes charged on the property like property tax, water tax and land tax are also collected by the landlord from the tenant. Some type of leases bound the tenant paying the taxes and insurance premium for the property.

(g) **Security Deposits**: It is a one-time amount collected by the landlord before handing over the property to tenant. Usually during the time of lease, the landlord collects some amount as deposit and it is refundable when the tenant leaves the property. The amount of security deposits depends upon the negotiations between both the parties.

10.4.2 Expense Items

The following are the various expense items:

(a) **Repairs**: Repairs are regular expenses done on the property to maintain the value of the property. It includes repairs of the walls, ceilings, furniture, electricity wires or drain lines and water pipes. These are basically the damage of some sections of the property that need to be rectified so that the value of the property is properly maintained and the tenant retention for the property is for longer period.

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(b) **Renovations:** Renovation is the whole look change of the property, to bring some newness in the property, to add a new charm to the property. Commercial properties are renovated so that they are according to the present trends in the property market. Renovations are not of regular nature they are done when the property grows older and for the reason of safety, increase in the property value the renovation of the property is done so that it attracts a number of users and the property starts generating income.

(c) **Utilities:** Utilities mean useful features or something useful to the home such as electricity, gas, water, cable and telephone. Examples of utilities in a car are brakes, gas caps and a steering wheel. Examples of home utilities are electricity and water.

(d) **Maintenance Expenses:** These are regular expenses that are incurred in the property. There can be different type of maintenance such as preventive maintenance, which are related to the safety of the property and the people using it. Examples of such expenses are corrective maintenance, emergency maintenance and cosmetic maintenance. Each type of maintenance occurs as per the requirement and prioritisation of the property.

(d) **Taxes and Insurance**: Property tax is a tax paid on property owned by an individual or other legal entity, such as a corporation. Most commonly, property tax is a real estate ad-valorem tax, which can be considered a regressive tax. It is calculated by a local government where the property is located and paid by the owner of the property. The tax is usually based on the value of the owned property, including land. Insurance is the premium amount paid by the landlord for ensuring the future safety of the property and if the damage happens then there is no bearing of whole loss at a time.

(e) **Mortgage**: A mortgage is a debt instrument, secured by the collateral of specified real estate property that the borrower is obliged to pay back with a predetermined set of payments.

10.4.3 Operating Budget

In real estate, an operating budget describes the income and expenses for a property. It is used to track an asset's success and viability. Typically, property managers prepare and present the annual operating budget to landlords before the year starts.

Operating Expenses

Operating expenses the out-of-pocket costs of operating and maintaining a real estate property. For example, these include:

- Insurance
- Property taxes
- Management and administration fees

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- Common area maintenance costs
- Utilities
- Contract services (i.e., security, janitorial, landscape, etc.)
- Supplies

Certain other costs are excluded from operating expenses, even though the landlord may be responsible for them. For example, these include:

- Consultant fees
- Market study costs
- Advertising and marketing
- Refinancing and debt service
- Tenant improvements
- Capital improvements and structural repairs

The responsibility for paying these expenses depends on the lease type, such as triple net, full-service gross, or modified gross. In a triple net lease, lessees (tenants) pay property taxes, insurance and maintenance expenses. In other lease types, the landlord (owner) pays some or all of these expenses.

Gross Operating Income

A property's Gross Operating Income (GOI) includes rental income and other sources of revenue, such as vending and laundry machines. Gross Potential Income (GPI) refers to the perfect revenue figure under perfect conditions. For budgetary purposes, the property manager must forecast lost income due to vacancies, incentives, and credit losses. Then, subtract these costs from GPI to compute GOI. The other name for GPI is Effective Gross Income (EGI). For brand new properties, losses are estimated using data from comparable properties.

Calculation of Operating Budget

An operating budget definition addresses the purpose and contents of the budget. In fact, the operating budget definition pertains directly to operating income and expenses.

The basic calculated figure from an operating budget is Net Operating Income (NOI).

NOI = GOI – Operating Expenses

The format starts with GPI, an estimate of the maximum income over the next 12 months. This is followed by items that reduce GPI and the resulting GOI (or EGI). These expenses are added to get the property's total operating expenses for the year. Finally, the operating expenses are subtracted from GOI to get NOI. This is a before-tax figure and excludes the following:

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- Loan interest and principal payments
- Depreciation
- Amortisation
- Capital expenditures
- Income taxes

Then, subtract these costs from NOI to get Net Income (NI). This is the net profit the property generates.

The property manager can prepare several versions of the operating budget under different assumptions. This is a sensitivity analysis that varies certain variables. For example, these include changes to market rents, interest rates, available supply, vacancy, credit losses and more. This gives us a set of scenarios from best-case to worst-case. Many budgets contain multi-year data. In addition, the budget may show adjustments to NOI to get Cash Flow before Tax (CFBT).

10.4.4 Capital Expenditure

Capital expenditures are the money used to add to or improve a property beyond common repairs and maintenance. Capital expenditures are used for investment properties, equipment, and other fixed business assets. Many people refer to capital expenditures as capex. Since the cost related to these improvements is usually substantial, many real estate investors with long-term goals set aside cash from their monthly revenue to put into reserves. Having reserves in place protects investors from large capital expenditures when a major repair or improvement is needed. Having cash available to cover these capital expenditures is important to be able to keep receiving cash flow from the property. Money set aside for these reserves is not listed as an expense on the income statement like operating expenses are. Although the reserves affect the free cash flow, capital expenditures are only reported on taxes when there is an expense of the improvement or repair.

Check Your Progress

3. Who reviews the financial performance of a building?
4. What do you understand by Gross Operating Income (GOI) and Gross Potential Income (GPI)?

10.5 MONTHLY CASH FLOW FORECAST

In real estate, cash flow is the difference between a property's income and expenses, including debts. Cash flow is used in properties that produce income, like rental real estate such as an apartment complex, single-family rental, duplex, or commercial building. A property can have positive cash flow, where there is more income than expenses and financing costs, or negative cash flow, where the expenses and financing costs exceed the income and the landlord loses money each month. Most real estate investors aim at owning rental property with positive cash flow. The more cash flow a property has, the better the return and the more income the real estate investor earns. Having higher cash flow also provides the landlord with a safety net for when unexpected expenses arise like a burst pipe, roof replacement, or new A/C or furnace. The more cash flow you have, the more you are able to sustain your business expenses, especially in economically challenging times.

Calculation of Cash Flow

Calculating a rental property's cash flow is a relatively simple process; it involves the following steps:

1. Determine the gross income from the property.
2. Deduct all expenses relating to the property.
3. Subtract any debt service relating to the property.
4. The difference is the property's cash flow.

The gross rental income of a property is the total income from all sources before any expenses or mortgage payments are made. Some properties, like a single-family rental, will only have one source of income, the rental income. But certain rental properties, especially commercial property, may have additional income streams like on-site laundry, late fees, pet fees, or product sales like boxes or moving supplies.

Expenses relating to a property will differ by the property type. Commercial properties that have net leases may have fewer expenses than a residential rental property that uses a gross lease.

A property's expenses are calculated to maintain that specific property. You can use the seller's expenses or you can estimate to get a rough idea of the cash flow for the property. Expenses can include the:

- Vacancy rate (typically subtracted from the gross income)
- Property taxes
- Property insurance
- Property management
- Utility expenses (water, electric, gas, trash and sewer)
- Property maintenance (repairs and upgrades over time)
- Business licenses
- Advertising
- Other miscellaneous fees

Subtracting the property expenses from the gross income provides you with a property Net Operating Income (NOI) or the cash flow from operations. NOI is frequently used in commercial real estate and does not account for debt service, which is any payment made to pay a debt like a mortgage payment or preferred return paid to private investors. It is the cash flow the property produces if there are no financing expenses.

If there is debt service, this can be subtracted after the expenses to provide the property's cash flow after financing.

10.5 INSURANCE OF SHOPPING CENTRES

Every shopping centre has its distinguishing characteristics. This is what the insurance companies think about when deliberating the type of necessary coverage. If property limits are very high, a shopping centre may be deemed a specialty insurance risk.

Evaluation takes into account elevated concentration of building and content value, large and unseparated floor spaces, structures that lack windows, hazardous occupant risks and outdoor risk exposure.

Evaluation also takes into account matters that involve public liability exposure and crowd control within the building, as well as outside in the parking lots. Shopping malls that are most subject to this consideration contain food markets, eateries, bowling alleys and skating rings, cinemas, and other public attractions.

Shopping Strip Insurance

Not all shopping strips are equal in regard to tailored insurance coverage. While some may have only one tenant, others house many commercial tenants. The defining factor between shopping strips is not a common interior property, but its entryway – from the parking area or adjacent sidewalk. For the multiple shopping-strip owner, the diffusion of risk creates an alluring comprehensive property insurance schedule. Parking lot and vacancy risk exposure are the main issues in this insurance class.

Check Your Progress

5. What does the term 'cash flow' refer to?
6. What are the steps to calculate a rental property's cash flow?
7. What are the factors that insurance companies evaluate in shopping centres?

10.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The financial aspects of a retail property include the administrative role of the retail property manager, analysis of financial reports, including rental incomes, expenses, capital expenditure and all other incomes.

2. Retail property managers are responsible for conducting maintenance and cleaning activities; and working with third-party service providers to repair and maintain crucial building systems like HVAC, plumbing and electricity. They may negotiate and prepare contracts for long-term maintenance activities and individual projects, and often supervise maintenance projects to ensure that they are completed according to expectations.
3. The financial performance of a building is reviewed on a monthly basis by the asset manager, director of property management, regional manager and property manager.
4. A property's Gross Operating Income (GOI) includes rental income and other sources of revenue, such as vending and laundry machines. Gross Potential Income (GPI) refers to the perfect revenue figure under perfect conditions.
5. Cash flow is the difference between a property's income and expenses, including debts. Cash flow is used in properties that produce income, like rental real estate such as an apartment complex, single-family rental, duplex, or commercial building. A property can have positive cash flow, where there is more income than expenses and financing costs, or negative cash flow, where the expenses and financing costs exceed the income and the landlord loses money each month.
6. The steps to calculate a rental property's cash flow are:
   (i) Determine the gross income from the property.
   (ii) Deduct all expenses relating to the property.
   (iii) Subtract any debt service relating to the property.
   (iv) The difference is the property's cash flow
7. An evaluation for a shopping centre's insurance takes into account elevated concentration of building and content value, large and unseparated floor spaces, structures that lack windows, hazardous occupant risks and outdoor risk exposure.

10.7 SUMMARY

- Financial aspects of a retail property include the budgeting, forecasting, profit planning, leverage management, asset management, and resource allocation.
- The financial aspects of a retail property include the administrative role of the retail property manager, analysis of financial reports, including rental incomes, expenses, capital expenditure and all other incomes.
- Retail property managers are responsible for controlling and directing operations at properties such as retail spaces and office buildings.

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- A retail property manager should possess certain qualities like good negotiations skills, which is of great need as it is very necessary in updating of lease and negotiations terms that should benefit both the parties.
- The duties and responsibilities performed by a retail property manager are managing leases, maintenance activities, reporting financial activities, cash flow management and personnel management.
- Monitoring the financial statements of the property is an important aspect in the valuation of a property. The building financial performance should be reviewed on a monthly basis by the asset manager, director of property management, regional manager and property manager.
- In real estate, an operating budget describes the income and expenses for a property. It is used to track an asset's success and viability.
- Operating expenses the out-of-pocket costs of operating and maintaining a real estate property.
- In a triple net lease, lessees (tenants) pay property taxes, insurance and maintenance expenses. In other lease types, the landlord (owner) pays some or all of these expenses.
- A property's Gross Operating Income (GOI) includes rental income and other sources of revenue, such as vending and laundry machines.
- The property manager can prepare several versions of the operating budget under different assumptions. This is a sensitivity analysis that varies certain variables.
- Capital expenditures are the money used to add to or improve a property beyond common repairs and maintenance.
- In real estate, cash flow is the difference between a property's income and expenses, including debts.
- A property can have positive cash flow, where there is more income than expenses and financing costs, or negative cash flow, where the expenses and financing costs exceed the income and the landlord loses money each month.
- The gross rental income of a property is the total income from all sources before any expenses or mortgage payments are made.
- Subtracting the property expenses from the gross income provides you with a property Net Operating Income (NOI) or the cash flow from operations.
- Insurance evaluation for shopping centres takes into account elevated concentration of building and content value, large and unseparated floor spaces, structures that lack windows, hazardous occupant risks and outdoor risk exposure.

- The defining factor between shopping strips is not a common interior property, but its entryway – from the parking area or adjacent sidewalk.

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10.8 KEY WORDS

- **Cash Flow:** Cash Flow (CF) is the increase or decrease in the amount of money a business, institution, or individual has. In finance, the term is used to describe the amount of cash (currency) that is generated or consumed in a given time period.
- **Profit and Loss Statement:** The profit and loss (P&L) statement is a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year. The P&L statement is synonymous with the income statement.
- **Effective Gross Income (EGI)**: It is the relationship or ratio between the sale price of the value of a property and its effective gross rental income. The anticipated income from all operations of the real property after an allowance is made for a vacancy and collection losses.
- **Capital Expenditure: C**apital expense or Capex is the money an organization or corporate entity spends to buy, maintain, or improve its fixed assets, such as buildings, vehicles, equipment, or land.

10.9 SELF-ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Discuss the concept of financial aspects of retail property.
2. Write a short note on operating expenses.
3. Write a short note on capital expenditure.
4. What are the expenses incurred by a retail property owner?
5. What is income statement?

Long-Answer Questions

1. Explain the administrative responsibilities of a retail property manager?
2. Explain the concept of operating budget in detail.
3. Examine the components of a financial report.
4. Examine the forecasting of monthly cash flow of a retail property.

10.10 FURTHER READINGS

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UNIT 11 VALUATION OF RETAIL PROPERTY

Structure

11.0 INTRODUCTION

Valuation refers to the process of determining the current worth of an asset. This unit discusses the valuation process of a retail property. It discusses in detail the cost components of property, factors determining the property value and factors affecting the rental property value. It also covers the estimation methods of rental value of retail property. There is a detail discussion on the methods of property valuation and what different activities to forecast retail property management.

11.1 OBJECTIVES

After going through this unit, you will be able to:

- Define valuation
- Explain the different components of cost related to property
- Examine the determinants of property value
- Analyse the factors affecting retail property value
- Discuss the various methods to estimate rental value of a retail property
- Examine the various methods of property valuation

11.2 DEFINING VALUATION

The process of estimating value of the property is known as valuation. There are many methods of valuation. Valuation provides an insight to both buyer and seller to calculate the actual worth of the property. It is a process of building opinion of a property's value. It can be understood as the process of making an estimate of worth of real property or other assets for a particular purpose, for instance letting, purchase, sale, audit, rating, compulsory purchase or taxation. An approximation of a property's value must take into consideration economic and social trends, as well as governmental controls or regulations and environmental conditions that may influence the four elements of value.

The four elements of a property's value are:

- **Demand**: It refers to the wish or need for ownership supported by the financial means to satisfy the desire.
- **Utility**: It is the ability to satisfy future owners' desires and needs.
- **Scarcity**: It is the finite supply of competing properties.
- **Transferability**: It refers to the ease with which ownership rights are transferred.

11.3 COST COMPONENTS OF PROPERTY

The cost components of property can be divided into:

1. **Initial Cost:** It is the first cost which is incurred during the transfer or purchase of property. It includes the purchase price of property, preferential location charges and closing cost.
2. **Operating Cost:** It is the cost that is incurred during the construction of property or during the use of the property. It includes construction cost, maintenance cost, real estate taxes, mortgage loan, brokerage fees and registration cost.
3. **Non-Operating Cost:** They are regular costs; however, there is no involvement of the money, and an estimated value is deducted of property. It includes depreciation and amortisation.

The various cost components of a property are as follows:

1. **Purchase Price**: The purchase price of something that is being sold, especially a house or apartment, is the price one has to pay for it. The purchase price is the price an investor pays for an investment, and the price becomes the investor's cost basis for calculating gain or loss when selling the investment. The purchase price includes any commission or sales charges paid for the investment, and the weighted average cost is used for multiple purchases of the same security.
2. **Preferential Location Charges**: A Preferential Location Charge (PLC) is an additional charge a buyer pays for the specific location or floor in a building or a retail property. This makes an apartment costlier

than other apartments in a building, for being the much-sought-after south-facing plot, or for integrating premium features like a park, pool or lake view.

PLC is calculated as**:**

PLC = PLC Rate x Super Area of Apartment or the retail property

It is not fixed, and depends upon the design and area of the building. It can be said that larger the area of building the high will be the PLC Cost.

3. **Closing Cost:** Closing costs include all expenses and fees charged by lenders and third parties, such as the broker and government, when the buyer gains ownership of a property. Closing costs may be one-time payments like brokerage or payments that recur on account of ownership such as home insurance. The closing cost is 3% of purchase price if without financing and 4.5% of purchase price if with financing. It will be approx. 4% of the mortgage value.
4. **Construction Cost**: Construction cost refers to the total cost of the work done on all elements of the project designed or specified by the design professional. It includes the cost at current market rates of labour and materials furnished by the owner and equipment designed, specified or specifically provided by the design professional. Construction costs shall include the costs of management or supervision of construction or installation provided by a separate construction manager or contractor, plus a reasonable allowance for each construction managers or contractor's overhead and profit.
5. **Maintenance Cost:** Maintenance cost is the cost which is incurred on a monthly basis for the upkeep of the property. This includes maintenance of the building/s and the amenities. The cost of maintenance comprises common area power costs, diesel generator cost, landscape maintenance cost, cost for maintenance of amenities (club house, swimming pool, gymnasium, common library, crèche, etc.), annual maintenance cost (AMC) for all capital equipment and lift, sewage treatment plant (STP) operating cost, staff cost, security, etc.
6. **Real Estate Taxes:** The local government charges a property tax from the owner of the house. It depends upon the area where property is located. It is a type of charges for owning a land in a district. On April 1 2019, GST rates were reduced to 1% for affordable housing and 5% for all other residential properties, with no set-offs. Construction of retail properties will continue to be taxed at the rate of 12%, with the benefit of a set-off. Lower tax rates come attached with various conditions (i.e., 80% of procurements need to be made from registered contractors, etc.).

7. **Brokerage Fees**: A broker is an individual or firm that acts as an intermediary between an investor and a property owner. A real estate broker, real estate agent or realtor is a person who represents sellers or buyers of real estate or real property. While a broker may work independently, an agent usually works under a licensed broker to represent clients. A brokerage fee is an amount that the broker takes for completing the deal of property.
8. **Registration Cost:** It is the charge paid to the government during the registration of the property. It is paid to the registrar at the registrar office located in any district. The registration cost varies from state to state but in general it is 1% of the total property value. It is a one-time payment paid at the time of purchase of the property.
9. **Depreciation**: It is a non-operating cost that is charged on the overall value of property every year. Depreciation is a reduction in the value of the property. It can be calculated on the amount it was purchased and the depreciation is charged in two ways. Either it can be charged same every year calculated by the cost of the property or it is calculated on the present value of the property. It is basically an expense in which there is no involvement of money at the moment.
10. **Amortisation:** Amortisation is an accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time. In relation to a loan, amortisation focuses on spreading out loan payments over time. When applied to an asset, amortisation is similar to depreciation. Amortisation typically refers to the process of writing down the value of either a loan or an intangible asset. Amortisation schedules are used by lenders, such as financial institutions, to present a loan repayment schedule based on a specific maturity date. Intangibles amortised (expensed) over time help tie the cost of the asset to the revenues generated by the asset in accordance with the matching principle of Generally Accepted Accounting Principles (GAAP).

Check Your Progress

1. Define valuation.
2. What are the four elements of a property's value?
3. What do you understand by the term 'transferability' of a property?
4. Define non-operating costs.
5. Define maintenance cost.

11.4 DETERMINANTS OF PROPERTY VALUE

The factors determining the value of property are as follows:

1. **Location:** The location of a property is the most obvious factor that affects how much a property is worth. Is it close to the city centre? Is it in a sought-after waterfront location? Is it close to public transport, shops, schools and restaurants? People generally want to live close to where they work and where they enjoy their free time, so properties in these areas will be more expensive. Then there is also the fact that some suburbs simply have a better reputation than others due to factors such as unemployment or crime rates. Two homes just streets apart can differ substantially in value if they are simply located in different postcodes.
2. **Supply and Demand**: If demand exceeds supply in a given market, property prices will increase. This is because there are more people in the market for a smaller number of properties and the competition to secure a home drives prices up.
3. **Interest Rates**: When the Reserve Bank changes monetary policy, this can affect the value of property. If the Reserve Bank raises the official cash rate and lenders around the country follow is suitable with their home loan interest rates, the average monthly mortgage repayment goes up. This has a huge effect on property affordability, so there is less possibility of competition in the real estate market and the prices will drop. Conversely, an interest rate cut means it is more affordable to buy and property prices might rise. Historically, cheaper interest rates and an easy availability of credit tend to lift property prices.
4. **Economic Outlook**: The overall performance of the economy can also have an impact on the property market. If the economy is experiencing a strong growth, employment and labour conditions are affected, which affects the property market.
5. **Property Market Performance**: The performance of the real estate market in the local area can also affect a property's worth. If there is little demand for houses in the neighbourhood and the properties listed are selling for well below the asking price, prices are expected to fall.
6. **Population and Demographics**: The more people who want to live in a particular district, the greater the demand for properties in that district. Simultaneously, the type of people living in the area also impact property values. For example, if new families are the leading demographic group in the area, multi-bedroom houses will be more desirable than small apartments.
7. **Size and Facilities**: The features and overall size of a property will also affect its worth. A four-bedroom house is likely to fetch more than a two-bedroom house in the same area, though features such as extra bathrooms,

garages, swimming pools and outdoor entertaining areas can all have an effect on property value. In busy cities, the lack or plenty of parking opportunities is another critical factor, while the functionality of a home's layout is always important.

8. **Aesthetics**: The street appeal of a property should never be undervalued. First impressions are very important in real estate, so the way a house looks from the outside can instantly add or subtract tens of thousands of rupees from its value.
9. **Renovation Potential**: The potential for growth is important for both buyers and investors — the potential to add an extra bedroom or extra storey, the potential to increase the floor space, or the potential to add a pool or outdoor patio. If there's scope for a buyer to improve and personalise a property through home renovation, the re-sale value of that property will increase.
10. **Investment Potential:** The value of a property is also impacted by the potential it presents to investors. Factors such as the rental income an investor can expect from a property and the capital growth they will enjoy when they later sell the property all play their part.
11. **Energy Efficiency**: A property made of high-quality materials is likely to have a higher value, in part because this makes the property easier to heat and cool. Given the high price of electricity and gas bills, items like solar panels, insulation and double-glazed windows can add value and appeal.

Check Your Progress

6. What are the factors that affect the value of a property?
7. How does the performance of the real estate market effect a property is worth?

11.5 FACTORS AFFECTING RETAIL PROPERTY VALUE

There are four factors which affect the value of a retail property: Economic Factors, Location Factors, Property Factors and Development Potential.

1. **Economic Factors**: Economic factors that affect a property valuation include both supply and demand operators, such as: interest rates, real GDP growth, wage growth, the unemployment rate, the household savings rate, migration rates and changes in the overall population.
   (a) **Increased Population**: With pressure of increasing population, retail real estate becomes more valuable for two reasons: increased consumption in the economy and potential redevelopment into much-needed residential property.

(b) **Interest Rates**: It is no surprise that interest rates (i.e., the cost of credit) are the largest driver of retail property prices. Cheaper credit has consequently flowed into capital expenditure and retail property investment. Now, retail real estate currently attracts a higher yield than residential when compared to bond yields.

(c) **Wage Growth**: Wages as a whole are also key indicators of how 'cheap' or 'expensive' a property is relative to the past or other countries.

2. **Location Factors**: A property's location may not be the only driver of value, but it has its own importance. Things like population growth, zoning, transport quality, services and population demographics are all significant factors.

3. **Property Factors:** Specific attributes at the individual property level are the most crucial factor in determining a property's value. Obviously, the age of the building, as well as its services and how it presents matter. Location, zoning and neighbouring buildings are also important. For instance, if a traditional retail property sits in an area dominated by apartments, and there is a shortage of restaurants to service the residents in the area, the value of the retail property could increase as restaurants compete for the space.

4. **Development Potential**: Another driver is development potential. As development potential increases with Floor Space Ratio (FSR), valuation often follows suit. In some councils, sustainable buildings and other eco-friendly proposals are rewarded with increased FSR, subsequently increasing valuation in most cases.

Check Your Progress

8. What are the economic factors that affect a property's valuation?
9. How does interest rate affect the value of a property?

11.6 ESTIMATION OF RENTAL VALUE OF RETAIL PROPERTY

The rental value of retail property is estimated by the following methods:

1. **Cost Approach:** This valuation method considers the cost to rebuild the structure from scratch, taking into account the current value of the associated land as well as construction material and other costs that would be associated with the replacement of the existing structure. The cost approach is generally applied when appropriate comparable properties are difficult to locate, such as when the property contains relatively unique or specialised improvements, or when upgraded structures have added substantial value to the underlying land.

2. **Sales Comparison Approach:** Also known as the "market approach, this method depends upon recent sales data for comparable properties. By looking for recently sold buildings with similar properties from the same market area, a buyer hopes to ascertain a fair market value for the property in question.
3. **Income Capitalisation Approach**: This valuation method is based primarily on the amount of income an investor can expect to derive from a particular property. That projected income could be derived in part from a comparison of other similar local properties, as well as from an expected decrease in maintenance costs.
4. **Value per Gross Rent Multiplier Approach**: The Gross Rent Multiplier (GRM) valuation method measures and compares a property's potential valuation by taking the price of the property and dividing it by its gross income.
5. **Value per Door Approach**: This commercial real estate valuation method is used primarily for apartment buildings rather than single-unit structures. This method simply determines the entire building's worth based on the number of units.
6. **Cost per Rentable Square Foot**: Rentable square footage combines the usable square footage (the space tenants can occupy) with the common areas tenants benefit from, such as stairwells and elevators. Using this methodology, you can extrapolate the cost per rentable square foot, compare it to the average lease cost per square foot and make an evaluation of the building's value.

Check Your Progress

10. What is the sales comparison approach to calculate a property's rental value?
11. What is the gross rent multiplier valuation method?

11.7 METHODS OF PROPERTY VALUATION

There are many methods for property valuation and one can use a combination of these methods:

1. **Comparable Sales Method:** In this method, the value of a house is determined by examining the prices of other similar houses in the neighbourhood. This method is most commonly used in case of residential properties. The buyer collects relevant data for comparable properties. Assets with similar characteristics like size, location, conditions, building regulations, neighbourhood and utility are identified. Transaction

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characteristics like transaction date, means of payment and processing speed are considered. The average rate per unit area at which similar properties in the neighbourhood were actually sold is first found. It is then multiplied by the actual area of the current property. Any specific defects in the property or advantages are also taken into account. Though this is a straight-forward comparison, it might be difficult to find recently-sold similar properties in the neighbourhood.

2. **Cost Approach**: The cost approach method estimates the replacement value of the property. This is arrived at by taking into account the costs of its components. The final value is arrived at by adding the market value of the vacant land and reconstruction cost of the building. Depreciation suffered over a period of time is then subtracted from it. Reproduction cost refers to the cost at a given point in time of reproducing a replica property. It is the cost of reproducing improvements of equal utility. This method, however, ignores the much finer ingredients like location and neighbourhood. Further, the current market and value is not reflected.
3. **Discounted Value of Rentals**: This method aims at figuring out the future rental appreciation of the property. It is estimated by finding out the growth in demand for real estate and availability of properties. This demand supply estimate gives a fair idea of the value of property.
4. **Automated Valuations Approach**: Automated valuations are instant and cost effective, and are generated through computer models. Automated valuation models use historical data that is indexed to predict current house prices. However, these do not incorporate any real comparison to other properties in the neighbourhood.
5. **Income Approach:** It is also called fundamental or intrinsic method. The income approach focuses on the value of the property rather than comparatives. Here, the present worth of property is estimated on the grounds of projected future net income like the rent and resale value. The beauty of this method is its ability to measure a property's value based on the property's ability to generate and maintain revenue.

Check Your Progress

12. What is the comparable sales method to calculate a property's value?
13. What is the cost approach to valuate a property?

11.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Valuation is the process of estimating value of the property. It can be understood as the process of making an estimate of worth of real property

or other assets for a particular purpose, for instance letting, purchase, sale, audit, rating, compulsory purchase or taxation.

2. The four elements of a property's value are demand, utility, scarcity and transferability.
3. Transferability of a property refers to the ease with which ownership rights are transferred.
4. Non-operating costs are regular costs; however, there is no involvement of the money, and an estimated value is deducted of property. It includes depreciation and amortisation.
5. Maintenance cost is the cost which is incurred on a monthly basis for the upkeep of the property. This includes maintenance of the building/s and the amenities.
6. The factors affecting the value of a property are:
   (a) Property market performance
   (b) Economic outlook
   (c) Population and demographics
   (d) Aesthetics
7. The performance of the real estate market in the local area can also affect a property's worth. If there is little demand for houses in the neighbourhood and the properties listed are selling for well below the asking price, prices are expected to fall.
8. Economic factors that affect a property valuation include both supply and demand operators, such as: interest rates, real GDP growth, wage growth, the unemployment rate, the household savings rate, migration rates and changes in the overall population.
9. Interest rates (i.e., the cost of credit) are the largest driver of retail property prices. Cheaper credit has consequently flowed into capital expenditure and retail property investment.
10. The sales comparison method, also known as the market approach, depends upon recent sales data for comparable properties. By looking for recently sold buildings with similar properties from the same market area, a buyer hopes to ascertain a fair market value for the property in question.
11. The Gross Rent Multiplier (GRM) valuation method measures and compares a property's potential valuation by taking the price of the property and dividing it by its gross income.
12. Under the comparable sales method, the value of a house is determined by examining the prices of other similar houses in the neighbourhood. This method is most commonly used in case of residential properties.

13. The cost approach method estimates the replacement value of the property. This is arrived at by taking into account the costs of its components. The final value is arrived at by adding the market value of the vacant land and reconstruction cost of the building. Depreciation suffered over a period of time is then subtracted from it.

11.9 SUMMARY

- The process of estimating value of the property is known as valuation. There are many methods of valuation.
- It is a process of building opinion of a property's value. It can be understood as the process of making an estimate of worth of real property or other assets for a particular purpose, for instance letting, purchase, sale, audit, rating, compulsory purchase or taxation
- The four elements of a property's value are demand, utility, scarcity and transferability.
- The cost components of property can be categorised into initial costs, operating costs and non-operating costs.
- A Preferential Location Charge (PLC) is an additional charge a buyer pays for the specific location or floor in a building or a retail property.
- Closing costs include all expenses and fees charged by lenders and third parties, such as the broker and government, when the buyer gains ownership of a property.
- Construction cost refers to the total cost of the work done on all elements of the project designed or specified by the design professional. It includes the cost at current market rates of labour and materials furnished by the owner and equipment designed, specified or specifically provided by the design professional.
- Maintenance cost is the cost which is incurred on a monthly basis for the upkeep of the property.
- The local government charges a property tax from the owner of the house. It depends upon the area where property is located. It is a type of charges for owning a land in a district.
- Amortisation is an accounting technique used to periodically lower the book value of a loan or an intangible asset over a set period of time. In relation to a loan, amortisation focuses on spreading out loan payments over time.
- Amortisation schedules are used by lenders, such as financial institutions, to present a loan repayment schedule based on a specific maturity date.
- The location of a property is the most obvious factor that affects how much a property is worth.

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- If demand exceeds supply in a given market, property prices will increase.
- If the economy is experiencing a strong growth, employment and labour conditions are affected, which affects the property market.
- The performance of the real estate market in the local area can also affect a property's worth. If there is little demand for houses in the neighbourhood and the properties listed are selling for well below the asking price, prices are expected to fall.
- The value of a property is also impacted by the potential it presents to investors. Factors such as the rental income an investor can expect from a property and the capital growth they will enjoy when they later sell the property all play their part.
- There are four factors which affect the value of a retail property: Economic factors, location factors, property factors and development potential.
- Economic factors that affect a property valuation include both supply and demand operators, such as: interest rates, real GDP growth, wage growth, the unemployment rate, the household savings rate, migration rates and changes in the overall population.
- A property's location may not be the only driver of value, but it has its own importance. Things like population growth, zoning, transport quality, services and population demographics are all significant factors.
- The rental value of retail property is estimated by three methods: Cost approach, sales comparison approach, income capitalisation method, value per gross rent multiplier method, value per door approach and cost per rentable square foot method.
- The Gross Rent Multiplier (GRM) valuation method measures and compares a property's potential valuation by taking the price of the property and dividing it by its gross income.
- Rentable square footage combines the usable square footage (the space tenants can occupy) with the common areas tenants benefit from, such as stairwells and elevators.
- There are various methods to valuate a property, including the comparable sales method, the cost approach, the automated valuations approach and the income approach.

11.10 KEY WORDS

- **Valuation:** Valuation is the process of determining the present value of an asset. Valuations can be done on assets or on liabilities.
- **Rental Value:** Rental value is the fair market value of property while rented out in a lease. More generally, it may be the consideration paid under the

lease for the right to occupy, or the royalties or return received by a lessor under a license to real property.

- **Automated Valuation:** Automated valuation model is the name given to a service that can provide real estate property valuations using mathematical modelling combined with a database. Most AVMs calculate a property's value at a specific point in time by analyzing values of comparable properties.
- **Broker:** A broker is a person or firm who arranges transactions between a buyer and a seller for a commission when the deal is executed. A broker who also acts as a seller or as a buyer becomes a principal party to the deal.
- **Amortisation:** Amortization is an accounting technique used to periodically lower the book value of a loan or intangible asset over a set period of time.
- **Closing Cost:** Closing costs are the expenses, over and above the price of the property that buyers and sellers normally incur to complete a real estate transaction. Costs incurred may include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges.
- **Floor Space Ratio**: It is the ratio of a building's total floor area (gross floor area) to the size of the piece of land upon which it is built. It is often used as one of the regulations in city planning along with the building-to-land ratio.

11.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the four elements of property valuation?
2. Briefly discuss the cost components of a property.
3. Mention any three determinants of property value.
4. What is the comparable sales method?
5. State any two economic factors affecting the value of a retail property.

Long-Answer Questions

1. Examine the determinants of property valuation.
2. What are the factors affecting the value of a retail property? Discuss.
3. Explain the components of cost in property valuation.
4. Discuss the types of methods for estimating the rental value of a retail property.
5. Discuss the Preferential Location Charges (PLC) of a property.

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11.12 FURTHER READINGS

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BLOCK IV:
MARKETING, MAINTENANCE, FUTURE OF RETAIL PROPERTY

UNIT 12 MARKETING RETAIL PROPERTY

Structure

12.0 INTRODUCTION

Marketing has been described as "the art of telling stories so enthralling that people lose track of their wallets." With growing demand, the retail property industry has seen a rise of professional property marketing as well. This unit discusses the concept of marketing management in the promotion of retail property, the need for effective management and different methods of marketing retail property. It also discusses in detail the best practices of marketing methods such as signage, display advertising and other promotional techniques.

12.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the role of marketing management in retail property
- Identify the methods of property marketing
- Identify the merits and demerits of different methods of property marketing

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12.2 MARKETING OF RETAIL PROPERTY

According to Philip Kotler, "Marketing management is the analysis, planning, implementation and control of programmes designed to create, build, and maintain mutually beneficial exchanges and relationships with target market for the purpose of achieving organizational objectives". Marketing can be understood as the social process by which individuals and groups try to obtain what they need and want by producing, offering and exchanging goods and services of value with others.

Retail properties have growing importance due to the increase demand of goods and services. This has led to an increase in demand of retail properties such as showrooms, malls and stores. Marketing plays an important role in the efficient use of retail property as growing competition has led the property owners to showcase their property effectively to the prospective users. Marketing helps in recognising the need and wants of the consumers, creates effective market value and also values the customers. According to the concept of marketing management, anything (physical products, services, movies, theatres, shows, place, ideas and information services) can be marketed. Retail property is also a physical product that needs to be effectively managed and marketed to the correct user.

12.2.1 Importance of Effective Marketing of Retail Property

Retail properties have gained huge importance in the development of a region. Moreover, the consumer of retail property has also become very educated; they study deeply before investing in any commercial property. In this process of trading of retail property, effective marketing plays an important role.

The benefits of effective marketing of retail property are:

1. **Increase in Sales:** The marketing of retail property helps in increasing the sale of the property. When a property is marketed properly, it creates demand in the mind of consumers and the property information is accessible to the masses in a go, increasing the sales. Many property dealers have started showcasing properties in the form of advertisement and the other techniques of creating demand for the property.
2. **Easy access to the product**: Marketing helps customers in finding the property they need. Marketing techniques are effective sources of educating people of the different types of property and there facilities. The people can easily access the property and get full information.
3. **Source of Communication**: A marketer is a link between the final customer and the manufacturer. A marketer does not just help in selling and buying activity, but also collects important information about the people, i.e., the likes and dislikes of the product and important information regarding the market. This helps the manufacturer in designing and delivering a product meeting the customer's expectation. This will increase sale and profits, and ensure higher levels of satisfaction to the consumer.
4. **Specialisation in Work**: Marketer is a professional and skilled person in distribution network. They know the likes and dislikes of people

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because of nearness and connection with the people. They show the property according to the wants and needs of people. Their proficiency and information about the property and market helps the customers to make right choice in their purchase.

5. **Comfort and Facility in Shopping**: Modern retail houses, such as shopping malls, chain stores and multiplexes make shopping a pleasant experience. The environment and ambience in these super bazaars provide a variety of facilities like kids play, entertainment, parking, lifts and trolleys to collect goods, coffee shop etc.

Check Your Progress

1. Define marketing.
2. State any four benefits of effective marketing of retail property.

12.3 DIFFERENT METHODS OF MARKETING RETAIL PROPERTY

The method of marketing a retail property plays an effective tool of communication between the owner of property and the prospective user or the buyer of property.

The different methods of marketing are discussed below:

12.3.1 Signage

Signage is a design or symbols that communicate a message. They are effective symbols presented graphically to display information to the particular audience. Promotional signage may be designed to persuade receivers of the merits of a given product or service. Signage is different from labelling, which conveys information about a particular product or service. In the property market, signs are used on the design structure for easy understanding about the property design. Under-construction properties display these signs to make people understand the property's layout. Signage can be of two types: Digital signage and Print signage. Digital signage refers to electronic display of products through signs. Print signage is the traditional way of using signs to display the property.

Digital Signage vs. Print Signage

(a) **Reliability:** Print signage is reliable and unlikely to fail, while digital signage can sometimes fail because of electricity or software issues.

(b) **Cost:** Print signage is cost effective and the advancement in printing methods has lowered the material cost too. Digital signage involves huge costs.

(c) **Flexibility:** The low cost of print signage, especially for pop-ups, A-boards, vinyl tie-signs and pull-up stands, means that multiple versions can be produced for different occasions. Digital signage is a customised way for communicating the message and can be changed whenever there is need to.

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(d) **Environment Friendly:** Print signage is the traditional way of using signs. However, they are not environment friendly as the printed sheets are not reusable. On the other hand, digital signage is an environment-friendly method of displaying the information.

Merits of Signage

(a) Signage is an effective way of attracting and communicating with the customer.
(b) It provides an identity to the organization.
(c) Signage provides easy display of the property; the customer can see the property design to understand the layout of the property.
(d) They are cost-effective methods; however, digital signage involves huge cost initially.
(e) It is high impactful on the minds of customers.

Demerits of Signage

(a) It does not ensure return as they can fail and the cost can increase. Furthermore, it is difficult to calculate the ROI on the property.
(b) Digital signage is a new method and every organization cannot afford to use this method for promotion.
(c) Less information provided on the signs can lead to misunderstanding by the customers and they would avoid it.

12.3.2 Display Advertising

Display advertising refers to the process of advertising a property through visuals like images and videos on networks of publisher websites such as the Google Display Network, Facebook etc. Display ads are posted on related third-party websites in the form of banners, images, and text ads. Display advertising is a type of blanket term that includes every visual ad placed on a website.

There are three types of display advertising:

(a) **Site-placement Advertising:** In this type of display advertising, the advertiser/marketer chooses the website they would like to run their display ads on.
(b) **Contextual Advertising:** In this type of display advertising, networks place ads on relevant websites, for example showing an ad for dog food on a pet adoption website.
(c) **Remarketing:** Remarketing display ads appear in front of users who have been on your website or post-click landing page but have left without completing the relevant conversion goal.

Merits of Display Advertising

(a) **Visual:** Eye catching images or rich media and videos can be used to grab the attention of the viewers.
(b) **Awareness:** Brand awareness can be built to promote the property. While search advertising reaches an audience with an intention to purchase, display

can create an initial interest. Display ads have a high reach and can be seen by large numbers of people.

(c) **Targeted:** There are certain targeting options that are not available through search marketing. These include topic and interest targeting and remarketing. You can also reach specific demographics such as gender and age.

Demerits of Display Advertising

(a) **Lower Click-Through Rate (CTR):** Display ads normally have a lower CTR than search ads.

(b) **Lower Conversions:** A lower CTR also means lower conversions, such as sales and registrations. When users see an ad they are not actively looking for property, so they may not be ready to buy. Display ads are more suitable for long sales processes than for selling high volumes.

(c) **Ad Avoidance:** While the impressions may be high, it cannot be guaranteed that users would pay attention to the ad. Ad blocking tools can also stop users from seeing the ads.

12.3.3 Brochures

A marketing brochure is a printed piece of surety that often includes a tri-fold layout with inserted pages or a booklet format. Brochures are one of several print options that companies can use as a part of business or product promotion.

Merits of Brochure

(a) **Flexible Designing:** A company can use brochure as an effective marketing tool and the designing of brochure is not a complex procedure. There are numerous designs available on various software or internet to choose from. The content used on the brochure can be modified as per the company's needs.

(b) **Easy to Handle:** Brochures are small, allowing you to place them on doors and car windshields, hand them out to passers-by, and place them in your reception area where visitors can easily take them. They can also be placed in point-of-sale displays where your product is sold. Due to their size, people will be more likely to hold onto a company brochure than a flyer, which appears more disposable and requires folding.

(c) **Saves Time:** Rather than typing a full letter to a customer answering an inquiry, sending a brochure that contains the requested information saves time and generally exposes the customer to a great deal.

Demerits of Brochure

(a) **Printing Cost:** Brochure printing involves huge cost as they are printed in large numbers and the material used to print them is also of high quality.

(b) **Limited Space:** They have less space, usually content specified by the company is in small paragraph or in bullet points.

(c) **Environment Concerns:** A brochure, even when printed on recycled paper, is not an environmentally friendly means of advertising because a single brochure generally reaches a single customer.

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12.3.4 Direct Mail

Direct mail is a type of advertising where mails or messages about the property are sent to the target customers. Direct mail is an attractive option for small business owners, as it can communicate complete information about the property and reach almost any possible target group, all for a relatively low cost. Direct mail can provide the basis for a business, or it can be used to supplement a company's traditional sales efforts. Direct Mail is used mostly in business-to-business deals. It is an effective way of marketing retail property as it considers only the prospective buyers of the property.

Merits of Direct Mail

(a) **Target a Slot Audience:** Direct Mail concentrates on the targeted slot of audience where the chances of buying decisions are very much sure. Direct mail has higher chances of getting the prospective buyers.

(b) **Provide Detailed Information:** Direct mail pieces give a lot of room to work with (front and back), hence one can also give customers a lot more information. For instance, a detailed letter, an event invite or a flyer can outline the benefits of your company, its local history and provide a special deal for new customers.

(c) **Easy Tracking of Response Rate:** The redemption can be tracked easily and the known response rate enables to calculate the ROI.

Demerits of Direct Mail

(a) **Costs can add up:** If one needs to contact the targeted audience, they need the list of the prospective customers and the acquiring of that list costs much.

(b) **Low Response Rates:** Sometimes the response rates in direct mail is very low and the chances of response rates are sometimes near to 2% in direct mail.

12.3.5 Publicity and Public Relations

Publicity is a non-paid form of impersonal communication. It is same like advertisement except that advertisement is a paid form, whereas publicity is a non-paid form of marketing. It has no identified sponsor and the message is passed in the public. Public relations is referred to the activities the company carries out to improve the image of the company and the property.

Merits of Publicity and Public Relations

(a) **Credibility:** If the publicity message is given by an independent source, people trust it more as compared with an advertisement.

(b) **Mass Reach:** Such message can reach more number of people, and gives more importance to information given in the news; it does not pay attention to paid advertisement.

Demerits of Publicity and Public Relations

(a) **No Control:** Firms have no control on the information given in the advertisement.

(b) **Limited Information:** Only the newsworthy information is given, so it cannot be used as an effective tool to promote sales.

12.3.6 Newspapers

Newspapers can be called the best source of information reaching the masses. Newspapers are a part of everyday routine and the most popular source of print media for advertisement. For property advertisements, most newspaper have space available named classified. It is the most used source of property marketing.

Merits of Newspapers

(a) It provides the mass coverage or mass reach, as the circulation of newspaper is in lakhs.

(b) The average cost of paper is also very low.

(c) Newspapers have high reliability factor. People believe more in the advertisement published in newspapers.

(d) Newspapers allow flexibility in message and design.

Demerits of Newspaper

(a) Newspapers advertisement has very short life, i.e., one day only.

(b) Only literate customers can be reached by newspaper advertisements.

(c) Newspapers have low production and print quality.

12.3.7 Online Promotion

Internet is the best source of getting a message across to the masses. Online promotion is the process of advertising a property on the internet platform. It is the cheapest mode and reaches to a wide audience. Online promotion can be done through social media platforms, affiliation advertising, marketing influencers, websites and content sharing.

Merits of Online Promotion

(a) It is the cheapest way of advertising.

(b) It reaches to the mass audience at a time.

(c) Entry into online promotion portal has no barriers.

(d) Certain aspects of online promotion can be automated. This means fewer people can execute a brand promotion plan that typically needs a bigger team.

(e) Results from online promotion are more measurable than the offline advertising or print ads.

(f) It is the best way of advertising for new start-ups or small businesses that find it difficult to compete with big business houses.

Demerits of Online Promotion

(a) The ignorance level of customer toward online promotional advertisements is maximum. There are many options available on the internet and it may be

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possible that the customer does not pay attention towards your advertisement.

(b) Website downtime, lags in website or video loading and browser complications can reduce the number of times consumers see online advertisements and how well they see them. When technical issues occur, companies lose the opportunity to broadcast advertisements for their products and services and may lose potential sales.

(c) Consumers visit online websites for multiple uses such as chatting with friends, listening to music, reading books or surfing online content. They can easily be distracted and may not pay attention towards the advertisements.

Check Your Progress

3. Mention any three forms of retail property marketing.
4. What is a marketing brochure?
5. What are the merits of public relations?
6. How is direct mail a marketing option for small businesses?
7. State any two demerits of online promotion.

12.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing can be understood as the social process by which individuals and groups try to obtain what they need and want by producing, offering and exchanging goods and services of value with others.
2. The benefits of marketing a retail property are:
   (a) Increased sales
   (b) Easy access to product
   (c) Source of communication
   (d) Comfort and shopping facility
3. Some forms of retail marketing include online promotion, public relations and newspapers.
4. A marketing brochure is a printed piece of surety that often includes a tri-fold layout with inserted pages or a booklet format.
5. The merits of public relations include:
   (a) **Credibility:** If the publicity message is given by an independent source, people trust it more as compared with an advertisement.
   (b) **Mass Reach:** Such message can reach more number of people, and gives more importance to information given in the news; it does not pay attention to paid advertisement.

6. Direct mail is an attractive option for small business owners, as it can communicate complete information about the property and reach almost any possible target group, all for a relatively low cost.
7. The demerits of online marketing are:
   (a) Website downtime, lags in website or video loading and browser complications can reduce the number of times consumers see online advertisements and how well they see them. When technical issues occur, companies lose the opportunity to broadcast advertisements for their products and services and may lose potential sales.
   (b) Consumers visit online websites for multiple uses such as chatting with friends, listening to music, reading books or surfing online content. They can easily be distracted and may not pay attention towards the advertisements.

12.5 SUMMARY

- Marketing can be understood as the social process by which individuals and groups try to obtain what they need and want by producing, offering and exchanging goods and services of value with others.
- Marketing plays an important role in the efficient use of retail property as growing competition has led the property owners to showcase their property effectively to the prospective users.
- Retail property is also a physical product that needs to be effectively managed and marketed to the correct user.
- The benefits of effective marketing of retail property include increase in sales, easy access to the product, source of communication, specialisation in work and comfort and facility in shopping.
- Some marketing methods include signage (digital and print), newspapers, display advertising, brochures, direct mail, public relations and online promotion.
- Direct mail is an attractive option for small business owners, as it can communicate complete information about the property and reach almost any possible target group, all for a relatively low cost.
- Online promotion is the process of advertising a property on the internet platform. It is the cheapest mode and reaches to a wide audience.

12.6 KEY WORDS

- **Signage:** Signage is the design or use of signs and symbols to communicate a message. A signage also means signs collectively or being considered as a group. The term signage is documented to have been popularized in 1975 to 1980. Signs are any kind of visual graphics created to display information to a particular audience.

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- **Click-Through-Rate:** Click-Through Rate (CTR) is the ratio of users who click on a specific link to the number of total users who view a page, email, or advertisement. It is commonly used to measure the success of an online advertising campaign for a particular website as well as the effectiveness of email campaigns.
- **Brochure:** A brochure is an informative paper document that can be folded into a template, pamphlet, or leaflet. A brochure can also be a set of related unfolded papers put into a pocket folder or packet.
- **Public Relations:** Public relations is the practice of deliberately managing the release and spread of information between an individual or an organization and the public in order to affect the public perception.

12.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the role of marketing in the retail property industry?
2. State the differences between digital and print signage.
3. List the merits and demerits of display advertising.
4. What do you understand by publicity and public relations?

Long-Answer Question

1. Explain the importance of marketing of retail properties.
2. Discuss the differences between print advertising and digital advertising.
3. Discuss the advantages and disadvantages of direct mail as a marketing method.
4. Analyse online promotion as a method of marketing.
5. Assess the differences between newspaper and brochure advertising.
6. How does brochure advertising play an effective role in marketing? Discuss.

12.8 FURTHER READINGS

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UNIT 13 MAINTENANCE OF RETAIL PROPERTY

Structure

13.0 INTRODUCTION

Property maintenance is the application of cleaning, safety checks and repairs throughout residential buildings. A well-maintained property leads to higher retention of tenants and repeats business from visitors. This unit examines the need for property management. It discusses the different types of maintenance which are: preventive maintenance, emergency maintenance, corrective maintenance and cosmetic maintenance. The unit also identifies the measures to maintain the property. It also covers the security measures essential for a retail property.

13.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the concept of retail property maintenance
- Identify the need and benefits of different types of maintenance
- Discuss the measures to maintain retail property
- Analyse the need of maintaining a retail property
- Understand the security measures for retail property

13.2 RETAIL PROPERTY MAINTENANCE AND ITS TYPES

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Property maintenance is the process of preservation of residential or commercial building and its surroundings in an optimum condition by carrying out maintenance activities.

Property maintenance activities include cleaning of the building's internal and external common areas like halls, rooms, toilets, lawns, etc. It also involves rodent control and removal of pests and insects, and maintaining garden and landscaping the garden area. Other maintenance services include proper garbage separation and disposal, essential services, repairs and replacement of all mechanical and electrical systems, and security and safety checks.

Types of Maintenance

Let us discuss the different types of maintenance in this section.

13.2.1 Preventive Maintenance

They are routine inspections and repairs that keep the equipments and the property up to date. It is also called planned maintenance, and is conducted through the operating condition of the property. It is not a programmed maintenance programme, and depends upon the life cycle of the property. It is the simplest and the most straightforward method of maintenance.

The following flow chart depicts the process of preventive maintenance:

***Fig 13.1**: Work Flow of Preventive Maintenance*

Benefits of Preventive Maintenance

1. It extends the life of the property.
2. It enhances the proper functioning of property.
3. It does not require much paper work and data entry.
4. There is reduction on the unexpected breakdowns.

13.2.2 Emergency Maintenance

Emergency maintenance is a type of reactive maintenance that is used to prevent threat to lives, property, profitability, or viability of an organization. The types of emergency maintenance are:

(a) **Emergency Automated Maintenance**: It is when the maintenance automatically starts without human interventions to prevent damages.

(b) **Automated Response Maintenance**: This occurs when electronic maintenance requests are sent out in response to a serious failure condition, such as when elevators fail in a high-rise building or office tower.

(c) **Human Requests**: These are the requests from the tenants or the workers at the property for the maintenance.

The following flow chart depicts the work flow of emergency maintenance.

Fig 13.2: *Work Flow of Emergency Maintenance*

Benefits of Emergency Maintenance

The following are the benefits of emergency maintenance:

(a) Initial cost involved to maintain equipment before failure occurrence is safe.

(b) As no planning is involved, number of team members required to resolve issues will be less.

(c) It usually guides technicians to take preventive measures to prevent system from greater damages.

(d) It also helps one to immediately identify major cause of failure and then restore asset or equipment to its normal working condition. In turn, it minimises loss.

13.2.3 Corrective Maintenance

It is the maintenance and repairs of the non-emergency items in the property. It is repaired just after the fault is detected on the equipment or a part of property. Its objective is to keep the property up to date in good functioning so that renters can also be satisfied. Corrective maintenance can be planned or unplanned depending on the situation whether the maintenance plan has been created or not. Corrective maintenance allows technicians to perform their intrusions without delay, even if they can choose whether they want to maintain the piece of equipment on the spot, right when a problem has been detected or later. Unplanned corrective maintenance can quickly become more costly than planned one because it can lead to costs which could not have been anticipated.

The work flow of corrective maintenance is as follows:

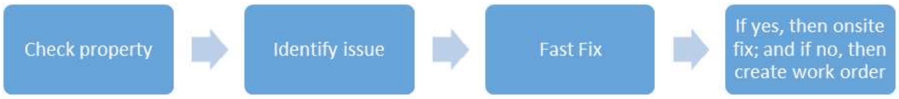

Fig 13.3: *Work Flow of Corrective Maintenance*

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Benefits of Corrective Maintenance

The following are the benefits:

(a) It reduces emergency repairs orders, and also maintains the safety of workers.

(b) Corrective measures are scheduled and this avoids delays in repairing work.

(c) It helps in increasing the life span of the property.

(d) There is optimum utilisation of resources.

(e) They are less expensive than emergency maintenance.

13.2.4 Cosmetic Maintenance

The following are the benefits:

It is most often performed to improve the appearance of the property and make it more appealing to the tenants, buyers or just to give it a new look. It involves carpeting, fresh paint, new light fixtures and bathroom renovation. It is usually performed during the make-ready and post tenant move-out process.

Benefits of Cosmetic Maintenance

The following are the benefits:

(a) It enhances the look of the property, making it more attractive.

(b) It increases the demand of property in the real estate market.

(c) The fresh look gives positive energy to the users of the property.

Check Your Progress

1. What do you understand by property maintenance?
2. What is preventive maintenance?
3. Define emergency maintenance.
4. State any two benefits of corrective maintenance.

13.3 MEASURES TO MAINTAIN RETAIL PROPERTY

In this section, you will learn about the measures to maintain retail property.

1. **Follow the International Property Maintenance Code:** The International Property Maintenance Code (IPMC) is a set of regulations that specify the minimum maintenance requirement for the building. It is a maintenance document created to fill the need for a modern and updated property maintenance code. The IPMC establishes minimum standards for maintaining building components such as exterior part of the structure, plumbing,

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sanitation, electricity fixtures and fire-fighting equipment.

2. **Planning and Scheduling:** The foremost measure for the maintenance of the property is to plan the process of maintenance, and how it will be executed. Scheduling is done for when which property or which function of the property needs to be put under the maintenance work.
3. **Financial Reporting:** It refers to creating a maintenance budget for the property. The financial report includes the monthly, quarterly or half-yearly maintenance expenses on the premises.
4. **Handling Tenants Communication:** Tenant communication is also important and it is the part of maintenance that the complaints of tenants regarding the repair work should be addressed.
5. **Ensuring Regulatory Compliance:** The regular changes in the rules and regulations in the property maintenance laws need to be checked on to ensure the regulatory compliances are being followed.
6. **Prioritise Maintenance Funding:** When there are many things to be repaired then the planning should be done according to the priority level of maintenance. Preventive maintenance and corrective maintenance should be given priority and cosmetic maintenance should be given the last priority. If there is a need for emergency maintenance, then it should be solved first.
7. **Automate Maintenance Management:** The maintenance work can be a very hard task in multi-unit properties, as the manual tracking of the maintenance activity can be difficult to complete. Therefore, there should be provision for automatic system of maintenance that will help in streamlining and optimising every aspect of maintenance, handling repetitive administrative work, tracking the performance of safety measures and reducing maintenance costs.
8. **Regular Property Audits:** The best way to keep the property up to date is to conduct regular facility condition assessment. The comprehensive baseline data about how the entire property and its system performs helps in property maintenance.

13.3.1 Need to Maintain Retail Property

The benefits of maintaining a retail property are discussed below:

1. **Increased Property Value:** Regular maintenance of property ensures proper functioning and increased life span of the property. It also adds a new charm to the property. A property with proper functioning facilities is of more value than a property in a poor condition.
2. **Reduced Costs:** Proper maintenance reduces the cost that needs to be spend during emergency situations. This increases the efficiency of the property, identifies sudden failures of the equipment at the right time and ensures no sudden breakdown. It also ensures that no huge cost is spent on repairs.

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3. **Satisfied Tenants:** A properly maintained property always provides satisfaction to the tenants, and they are less prone to change the property. This reduces tenant turnover and the living span of the tenant increases.
4. **Reduced Workload:** Regular maintenance of the property avoids the situation of emergency, there is no overloading of work and the regular maintenance also enables less repairing work than the sudden damage which requires huge repairing task.
5. **Safety Assurance:** The reduction in emergency repairs increases the safety of the people living in the property, and there are less chances of accidents occurring as the equipments are in proper working condition.
6. **Proper Utilisation of Property:** A properly maintained property enables the proper use of the property. This helps in increasing returns from the property.
7. **Increases Demand of Property:** The maintenance of property adds a new look to the property and it functions efficiently; this leads to an increase in demand of the property. Consequently, this helps in increasing the property's market and rental value.

Check Your Progress

5. What is the International Property Maintenance Code?
6. Mention any two benefits of maintaining a retail property.

13.4 SECURITY OF RETAIL PROPERTY

There are a few risks associated with the property management. They are discussed below:

1. **Physical Risk:** The elements of physical risk are damage of furniture, scratched paints, damage of exterior walls, electricity items faults and the faults in other physical attributes of the property.
2. **Market Risk:** Property managers are also subject to external market risks; their performance in the economy can impact a number of factors that are linked with property managers. The market risk includes fall of economy, competition in the market and slow increase in the demand of property.
3. **Tenant Risk:** Tenants can be a risk as well. These risks include fraudulence from the side of tenant, safety issues and non-payment of rent on time.
4. **Administration Risk:** Since there is a lot of information like databases of residents, rent rolls, incidents and claims that property managers need to handle, it sometimes becomes quite challenging to manage everything and without having an effective system, things become messy. Things like an overlooked clause, improper claim handling, missed deadlines and more

can cost a huge amount of time as well as money. However, today property managers can easily store, organise and analyse data with ease to make it accessible from any site.

Managing the Safety of Property

1. Physical risks can be coped up by taking insurance policies for the property, so that if there is any loss the property owner or manager does not have to bear the huge expense at a time.
2. The tenant can be effectively managed by maintaining proper documentation from the tenant possession of the property till they leave the property.
3. Safety can also be ensured by maintaining proper software database management system so that there is no error of any file missing. The files can be managed properly.
4. Property managers can secure the property with the help of high tech solutions of property safety such as surveillance cameras and electronic lock system.
5. The market risk cannot be controlled; however it can be minimised by continuous scanning of market so that there is timely detection of the threats for the property.
6. Regular maintenance of the property can reduce the emergency workload of the property manager.

Check Your Progress

7. What are some of the physical risks associated with a property?
8. What do you understand by administration risks?

13.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Property maintenance is the process of preservation of residential or commercial building, its surroundings in an optimum condition by carrying out maintenance activities.
2. Preventive maintenance is the routine inspections and repairs that keep the equipment's and the property up to date. It is also called as planned maintenance and is conducted through the operating condition of property. It is not a programmed maintenance programme it depends upon the life cycle of property. It is the simplest and straightforward method of maintenance.
3. Emergency maintenance is a type of reactive maintenance that is used to prevent a threat to lives, property, profitability, or viability of an organization.
4. The benefits of corrective maintenance are:

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- It reduces emergency repairs orders and also maintains the safety of workers.
- The corrective measures are scheduled and this avoids the delays in repairing work.

5. The International Property Maintenance Code (IPMC) is a maintenance document created to fill the need for a modern and updated property maintenance code. The IPMC establishes minimum standards for maintaining building components like; exterior part of structure, pluming, sanitation, electricity fixtures, fire-fighting equipment.
6. The benefits of maintaining a retail property are:
   (a) Increased property value
   (b) Reduced workload
7. The elements of physical risk are damage of furniture, scratched paints, damage of exterior walls, electricity items faults and the faults in other physical attributes of the property.
8. Administration risks refer to risks associated with databases of residents, rent rolls, incidents and claims that property managers need to handle. It can include an overlooked clause, improper claim handling and missed deadlines.

13.6 SUMMARY

- Property maintenance is the process of preservation of residential or commercial building and its surroundings in an optimum condition by carrying out maintenance activities.
- Property maintenance activities include cleaning of the building's internal and external common areas like halls, rooms, toilets, lawns, etc.
- Emergency maintenance is a type of reactive maintenance that is used to prevent threat to lives, property, profitability, or viability of an organization.
- Corrective maintenance is the maintenance and repairs of the non-emergency items in the property. It is repaired just after the fault is detected on the equipment or a part of property. Its objective is to keep the property up to date in good functioning so that renters can also be satisfied.
- Cosmetic maintenance is most often performed to improve the appearance of the property and make it more appealing to the tenants, buyers or just to give it a new look.
- The International Property Maintenance Code (IPMC) is a set of regulations that specify the minimum maintenance requirement for the building. It is a maintenance document created to fill the need for a modern and updated property maintenance code.

- The benefits of maintaining a retail property include increased property value, reduced costs, satisfied tenants, reduced workloads, proper utilisation of property and increased demand.
- Various categories of risks associated with a retail property are physical risk, market risk, tenant risk and administration risk.

13.7 KEY WORDS

- **Property Maintenance**: It is the process of preserving a residential or hospitality building and its immediate surroundings in an optimum condition through a set of specific maintenance activities.
- **International Property Maintenance Code**: The IPMC is a model code that regulates the minimum maintenance requirements for existing buildings. The IPMC is a maintenance document intended to establish minimum maintenance standards for basic equipment, light, ventilation, heating, sanitation and fire safety.
- **Regulatory Compliance**: It refers to an organization's adherence to laws, regulations, guidelines and specifications relevant to its business processes. Violations of regulatory compliance often result in legal punishment, including federal fines.
- **Market Risk**: Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved.

13.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What does property maintenance include?
2. What are different types of property maintenance?
3. What are the risks associated with a retail property?
4. List the benefits of cosmetic maintenance.

Long-Answer Questions

1. Explain the need of property maintenance.
2. Distinguish between corrective maintenance and preventive maintenance.
3. Discuss how the safety of a property can be managed.

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13.9 FURTHER READINGS

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UNIT 14 FUTURE OF RETAIL PROPERTY

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Structure

14.0 INTRODUCTION

This unit aims to cover the future trends of retail property. It discusses increase in competition, how to handle the competition and analyse the requirement of retail property. It also identifies the factors that may affect the future expectations of retail customers, such as increase in market size, changing expectations and buying behaviour of customers, and social trends. The unit covers the impact of the internet usage on the retail property industry. It also examines the future planning of retail property industry, impact of transportation and future designs of retail stores.

14.1 OBJECTIVES

After going through this unit, you will be able to:

- Discuss the future of retailers and retail customers
- Examine the ways to meet customer demand in the retail property industry
- Analyse the usage of the internet in future

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- Discus the impact of internet usage on the retail property industry
- Examine the importance of future planning in the retail property industry
- Analyse the future designs of retail stores

14.2 FUTURE OF RETAILERS

The future of retailing is shifting more towards online portals as there is a large section of consumers shifting to online market. There are new platforms, systems and technologies to start a retail business. The retailers are integrating with technologies, augmented and virtual reality, the Internet of things, sensor-driven packaging and connected appliances. In future, there will be an increase in competition and the retailers need to find ways to fight with the competition.

14.2.1 Increasing Competition

There is an increase in competition in retail business due to the developments in the online market. The retail business is easily running online and there is no need of separate spaces for retail stores.

Some of the challenges faced by the retail property industry are as follows:

1. **Digital Disruption**: Consumer behaviour is changing rapidly, and this is largely because of the explosive growth of e-commerce. Customers have many choices at their fingertips before they commit to a purchase decision. A large number of purchases are now made online, but still consumers prefer to buy things in person at brick-and-mortar shops. It is common for customers to research products online only to make a purchase in person. Therefore, this should be seen as an opportunity rather than a sign of doom. It is relatively easy to expand a business into an online platform.
2. **Finding Technology Solutions**: There are numerous options on the internet to expand a business through online platform. The retailers can choose from these options; however, lack of guidance can lead to selecting an unsuitable mode of online business. Business owners need to understand exactly what the software offers and whether it fits the needs of their business model. A complex and unwieldy software platform can actually increase costs and throw discord into a company that was functioning passably without it.
3. **Customer Retention**: 'Brand loyalty' has become a much more prevalent term because customers have so many more options available to them today. It is a common mistake to make a sale without trying to attract repeat business from the customer. In today's business environment, this is often a path to failure. Traditional customer loyalty programs, such as special offers and promotions, are still effective; however, there is now a growing trend of personalisation. It is important

to maintain communications with customers in order to keep them loyal to a brand.

4. **Evolving Customer Expectations**: Changes in what customers want and expect can change even faster than one could ever imagine was possible. Retailers need to be aware of seasonal trends and sudden changes in customer shopping behaviours. A few seasonal changes to a product line-up are usually all it takes to keep a store on track. The most effective way to approach this problem is to always strive for innovation.
5. **Modern Marketing**: Rising competition has made it compulsory for the retailers to reach to the consumers and stay in communication. But there are many methods of marketing and due to the increase in competition there is a need of multi-marketing method, which means using more than one method of marketing such as emails, digital advertising, social media, etc.
6. **Inspiring and Retaining Employees**: Historically, retail has had a high employee turnover rate, and this is still the case today. One of the greatest challenges of a retail store is to keep a core of long-term staff. The benefits of this are decreased time and financial costs of hiring and training new employees. It also keeps loyal employees happier and they perform better on the job.
7. **Internal Communications**: As the retail market becomes more complex, organizations have more complex structures that require more sophisticated internal communication solutions. This task can be challenging, especially for medium-to-large organizations with several company departments. Needless to say, business processes become severely compromised when internal communications are inefficient.

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14.2.2 Methods to Handle Competition

There are various methods to handle the rising competition in the market. Some of them are as follows:

1. **Identifying and Solving Customers' Pain Points**: A pain point is a specific problem that prospective customers of a business are experiencing. In other words, pain points are problems, plain and simple. The most important step to handle the rising competition and retain the customers is to find the pain points of the customers and then try to solve those problems.
2. **Finding a Niche in the Market**: A niche market is a segment of a larger market that can be defined by its own unique needs, preferences or identity that makes it different from the market at large. It is a customer base that always has the same choice; their choice does not change frequently. So the retailers can find this kind of customer base and retain them by fulfilling their needs.

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3. **Setting Competitive Pricing**: The retailer needs to concentrate on the pricing of the retail property. Increasing competition compels the retailers to set prices according to competitors. Competitive pricing is the process of selecting strategic price points to take advantage of a product or service based on the market relative to competition. This pricing method is used more often by businesses selling similar products since services can vary from business to business, while the attributes of a product remain similar.
4. **Adopting Changes in Business Style**: The other way in which a retailer can handle the competition is to change the business style. With the introduction of new policies and strategies, the competition level can be reduced. The new ways of doing business with the new techniques can be used.
5. **Offering Better Customer Service:** A customer is the king of the market. The more satisfied a customer, more the growth of the business. The retailer should provide customers with best customer services such as demonstration of product, after-sale services, discount offers, prize offers, free gifts, etc.

Check Your Progress

1. What is the importance of brand loyalty in retail property?
2. Why is it important to retain a niche in the market?
3. State any four methods to deal with competition in the market.

14.3 ANALYSING THE REQUIREMENTS OF RETAIL PROPERTY

In this section, you will learn about the different aspects of analysing the requirements of retail property.

14.3.1 Market Analysis

Market analysis is the study of the attractiveness and the dynamics of a special market within a special industry. It helps in the SWOT analysis of a company. Market analysis is a documented investigation of a market that helps in studying the planning activities of the particular industry. A good market analysis enables the industries to attract investors, sidestep pitfalls and attract the customers.

Process of Market Analysis in Property Management

1. **Defining Product Property Productivity Analysis**: The product property productivity analysis defines different attributes discussed below:
   (a) **Physical Attributes:** It includes the physical attributes of the property like the plot size, amenities of the property, building constructed on the property, the elevation design and the structural design of property.

(b) **Legal and Regulatory Attributes:** It includes the laws related to the property, the property registration and the process of transferability of ownership and also the regulations of Municipal Corporation or any other local regulatory body.

(c) **Location Attributes:** This attribute covers the economic factors of the location and the urban growth structure of the region. Location attributes concentrate on the development of nearby places of the location or the future scope of development.

(d) **Market Attributes:** These attributes cover the marketing mix i.e., price, place, product, promotion and also the competition level of the product property.

2. **Defining User Market Delineation:** After the analysis of product productivity, the user market is described, which includes certain concepts of market like exchange mechanism which means the tendency of buyer and seller in the market for the exchange of product. It also includes the time and distance concept. This step of market analysis also concentrates on geographic market delineation, which means the description of the geographical area and the range of market covered by the particular industry. The most important fact under this step is to identify the potential user characteristics of the property.

3. **Forecasting Demand Factors:** The factors affecting the demand of the property market are population, income of individual, taste and preference of user, behavioural factor, motivational and psychological factors.

   Population Size: Population in the property market are the potential users of the particular property. The more the population size of the region, the more is the demand of the property in that particular region. Highly populated areas have a huge demand of the rental properties. If the demand of property is high, then the price of the property is also high as there can be the scarcity of the property and there are more interested users. But if the population size is less relevant to the property then the price will be low.

   Individual Income: A highly income earning person always prefers to purchase a property as an investment or for residential purposes. The level of income decides the type of property an individual prefers.

   Taste and Preference: The buying habits of the people of a region and the geographical condition of a place define the taste and preference of the consumer of property in the property market. The property is used according to the regular nature of preferences made by the people in the particular region.

   Behavioural and Psychographic Factors: It refers to the mental thinking of the property user, and how it defines the property. Psychographic factor is defined by personality or lifestyle. People with common activities, interests and opinions are grouped together and given a "lifestyle name."

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The factors affecting demand helps in the demand segmentation of property market. The property market can be segmented through various segments such as demographic, geographic, psychographic and behavioural, and income segmentation.

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4. **Analysing Inventory and Forecast Competitive Supply:** After ascertainment of the demand factors, the supply estimates are analysed. It includes the existing stock of competitive properties i.e., the availability of similar properties nearby and defines the potential competition of the property in the market. The potential competition can be identified by factors such as availability of land and cost of land; interest rate on loan granted for the buying of property; material and labour cost accounted on the particular property and the competitive property; and the entry of new properties in the market. The ascertainment of supply rate of property in market helps users and the owners of the property for the purchase decision and setting of price of property, respectively.
5. **Analysing Interaction of Supply and Demand:** The equilibrium point is calculated after the calculation of demand and supply of the property. The real estate market has partial equilibrium stage. Partial equilibrium is the stage of equilibrium that considers only a part of market and the real estate market still focuses on the residential real estate and the factors affecting demand and supply does not consider the commercial real estate.
6. **Forecasting Subject Capture**: At the end of market analysis, the forecasting of survival, growth and future expectation from property is done to finalise the price value of the property.

14.3.2 Financial Analysis

Financial valuation of real estate is based on the strategies similar to equity analysis of any company. The financial valuation of property is based on absolute basis of valuation and relative basis of valuation. There are three methods of financial appraisal of the property: Discounting future Net Operating Income (NOI), capitalisation rate and gross income multiplier. The capitalisation rate and discounting future NOI is based on the absolute method, while gross income multiplier is based on the relative method.

1. **Discounting Future NOI Method:** NOI shows the earnings that the property generates after factorisation of operating expenses before deduction of taxes and interest payments. The formula for calculating the market value under this method is:

   Market Value = NOI/*r*-*g*

   NOI/R

   where,

   NOI = Net Operating Income

   r = required rate of return on real estate assets

g = growth rate of NOI

R = Capitalisation Rate

Under this method, the expected value of rental property can be calculated based on the comparable properties nearby. NOI calculation of real estate is similar to the earnings before interest, taxes, depreciation and amortisation. Discounting NOI from a real estate investment by the Capitalisation Rate (Cap rate) is similar to discounting a future dividend stream by the appropriate required rate of return adjusted for dividend growth.

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2. **Capitalisation Rate Method**: Capitalisation rate is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It determines the net value or the present value of property. Rate applied to NOI determines the present value of the property.

   The formula for finding the present value of property with the help of NOI and Cap Rate is:

   Market Value = NOI/ Cap Rate

   The methods to find the Cap Rate are:

   (a) **Build-Up Method:** It defines the accurate measurement of individual component of property to determine the discount rate.

   The formula for finding Cap Rate by this method is:

   Cap Rate= Interest Rate + Appropriate Liquidity Premium

   Or

   Interest Rate + Recapture Premium

   Or

   Interest Rate + Risk Premium

   (b) **Market Extraction Method**: This method assumes that there is current and readily available NOI, and the sales price information is also known by comparing the similar income generating properties. It makes the direct income capitalisation more meaningful.

   (c) **The Band of Investment Method:** In this method, the Cap Rate is computed using individual rate of interest for properties used for both debt and equity financing.

3. **Gross Income Multiplier Method:** It is the relative valuation method, which is based on the assumption that the valuation of property in the same area will be valuated proportionally to the gross income generated by that property.

14.3.3 Property Analysis

A property analysis report is made after the market analysis of property. The property analysis report covers the following aspects depending on its size:

1. Market analysis of demographic, socio-graphic and geographic data
2. Physical and economic characteristics of the property such as plot size,

building design, elevation, laws and regulations, and the economic principles that govern the property market

3. Pricing of property, which includes the basic cost information and renovation cost
4. Operating expenses to maintain property like utilities, property taxes, insurance, repairs and maintenance
5. Income information about the revenue that the property produces such as rent receipts
6. Finance availability for property such as various loans, total loan amount to finance the property, down payment, interest rates and closing costs

Thus, property analysis is the summarised description of the property covering each and every aspect of property; it is useful in understanding the property's value in the market place.

Check Your Progress

4. What are the different attributes of a property defined by a product property productivity analysis?
5. State the factors affecting the demand of the property market.
6. What is the capitalisation rate method for market analysis?

14.4 RETAIL CUSTOMERS IN FUTURE

The future trend of retail customer will be an Omni channel of purchasing. The retail customer is shifting more towards online mode of shopping as it is more convenient and developments in internet facilities has made it an easy purchasing mode for the customers. There are a number of options available to the customers for each particular product and in future there are many more to come. The retail customers will have multiple options of shopping and also a variety of choices.

14.4.1 Increasing retail market size

According to the retail marketing analytics report, "The global retail analytics market size to grow from USD 4.3 billion in 2020 to USD 11.1 billion by 2025, at a Compound Annual Growth Rate (CAGR) of 21.2% during the forecast period. Major factors contributing to the growth of the retail analytics industry are the rising demand for dashboards for data visualisation, growing adoption of cloud and continuous increase in data generation."

According to the report published by ibef.org, "By 2040, real estate market will grow to Rs 65,000 crore (US$ 9.30 billion) from Rs 12,000 crore (US$ 1.72 billion) in 2019. Real estate sector in India is expected to reach a market size of US$ 1 trillion by 2030 from US$ 120 billion in 2017 and contribute 13% to the

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country's GDP by 2025. Retail, hospitality, and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs. Indian real estate increased by 19.5% CAGR from 2017 to 2028. Office space has been driven mostly by growth in ITeS/IT, BFSI, consulting and manufacturing sectors. During 2019, the office leasing space reached 60.6 msf across eight major cities, registering a growth of 27% y-o-y. In 2019, office sector demand with commercial leasing activity reached 69.4 msf. Co-working space across top seven cities increased to reach 12 sq ft by end of 2019. Warehousing space is expected to reach 247 msf in 2020 and see investment worth Rs 50,000 crore (US$ 7.76 billion) during 2018–20. Grade-A office space absorption is expected to cross 700 msf by 2022, with Delhi-NCR contributing the most to this demand. Housing sales reached 2.61 lakh units in 2019 across seven major cities."

The factors affecting the increase in market size are:

1. **Demand and Supply**: Demand in the real estate industry is generally inversely proportional to supply for a particular area and is determined by the changes in population. As the accessibility of properties decreases, the valuation of the existing properties increases. Along with a growth in the number of residents residing in a particular area, the popularity of a locality in terms of people desirous of living there also pushes its price.
2. **Location**: Buildings and properties located in commercial areas hold higher value as compared to the ones in residential areas. Also, buildings which are constructed on freehold land tend to have a higher valuation than those on leasehold plots. In places where there is sufficient land available for residential purposes, the valuation of property shows a slower rise than in areas where land is comparatively in short supply.
3. **Infrastructure:** Infrastructure development is one of the most important factors that influence real estate prices, and is a major consideration for homebuyers. A location that has superior infrastructure is perceived to be of a higher value to a buyer. Accessible roads, rail transport, airports, malls and bus terminals in the vicinity of the property are facilities known to accelerate the real estate prices.
4. **Customisation**: The cost of a property tends to grow when developers undertake customisation of space on the lines of an investor's needs. This leads to a rise in the eventual price charged to the buyer. The valuation of a property depends on the specifications of materials used, layout, design, durability and life cycle of the property.
5. **Availability of Property Loans**: The more the property loans availability there is, more is the demand of the property. The market size of property tends to increase with the increase in the loans availability of property.

14.4.2 Changing Expectations and Buying Behaviour of Customers

Customers' expectations and buying behaviour are affected by various factors, such as:

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1. **Social Media:** With social media, everything is out there in the open. This "open book" approach to socialising has led to an expectation that brands should be monitoring any mentions on social media and responding accordingly. Whether this is a direct complaint or message or it is just a mention, consumers expect brands to be listening and ready to respond. Social media connects businesses and consumers through an instant feed of live updates, breaking news and messages. We can post something on social media and get instant feedback from friends. And according to Global Web Index, 28% of time spent online is social networking. This has effectively sped up the time consumers expect a brand (or anyone) to reply to a message. Social media has made it easier than ever before for consumers to share their thoughts with a wide audience. There are even some shoppers who have a larger social following than brands.
2. **Huge Information Processing**: A quick Google search can tell you just about anything you need to know. As a result, consumers have little patience when companies simply do not know something. Consumers expect data to be at companies' fingertips – from accurate stock information to delivery dates and customer records. And with this wealth of data and the technology to support it, consumers often feel like there is no excuse for getting it wrong.
3. **Self-Service Generation**: From self-checkouts to FAQ pages and call centre IVR, consumers are more willing than before to try to solve their problems themselves. This does not mean that they no longer want to call and talk to a real person, but it does mean that through clever use of self-service tactics, contact centres can save time and money.
4. **24/7 Customer Service:** In this virtual world, everyone has a smart phone in their pockets, connecting them to just about every aspect of their lives. This is a device that is always on and always connected. We have grown used to being able to find the information we need, contact whoever we want and even listen to whatever music we like, whatever time of day. Consumers do not expect to have to break this habit for a business. While 24/7 call centres may not be possible, consumers expect longer opening hours and weekend support.

6. **Omni-Channel Service:** Customers see a brand, not a department. They cannot understand why a call centre agent cannot remember a Twitter conversation they had with the brand the day before. This is particularly significant because 60% of consumers change their contact channel depending on where they are and what they are doing. As consumers move between channels, they should receive a consistent service and the experience should feel like one big conversation.

7. **Personalisation:** The whole online experience is now personalised – from social media to the way Google personalises our search results. It only makes sense for customer service to be personalised too. Consumers expect brands to remember them – they expect to be treated as an individual and not as just another customer. In practice, this means your agents need to have access to their whole communication history, their buying habits and preferences.

14.4.3 Influence of Social Trends

There is no doubt that society is continually changing. The tastes and fashions are a great example of this change. One of the most significant differences is the growing popularity of social media. Social networking sites, such as Facebook, have become very popular among younger people. The young consumers have grown used to mobile phones and computers. The younger generation prefers to use digital technology to shop online. Older people perhaps stick to their traditional methods. Changes in social factors can impact a firm in many different ways. Most companies analyse population growth and age structure. They also show interest in consumer attitudes and lifestyle changes. The analysis can show if there are faults in the marketing strategy. It can also help find new ideas. Below is a list of social factors which impact customer needs and the size of markets:

- Lifestyles
- Buying habits
- Education level
- Emphasis on safety
- Religion and beliefs
- Health consciousness
- Sex distribution
- Average disposable income level
- Social classes
- Family size and structure
- Minorities
- Attitudes toward saving and investing
- Attitudes toward green or ecological products
- Attitudes toward renewable energy
- Population growth rate
- Immigration and emigration rates
- Age distribution and life expectancy rates
- Attitudes toward imported products and services
- Attitudes toward work, career, leisure and retirement

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- Attitudes toward customer service and product quality

The social aspect focuses on the forces within society. Family, friends, colleagues, neighbours and the media are social factors. These factors can affect our attitudes, opinions, and interests. Therefore, **these factors can impact the sales of products** and revenues earned. The social factors shape who we are as people. It affects how we behave and what we buy. Population changes are also directly affecting organizations. The supply and demand of goods and services in an economy can change with the structure of the population. A decline in birth rates means demand will decrease. It also indicates greater competition as the total number of consumers fall. World food shortage predictions can lead to call for more investment in food production. An increase in the world's population can have the same effect. African countries like Uganda are facing food shortages. They are reconsidering the rejection of genetically modified foods now. Organizations should be able to offer products and services that aim to benefit people's lifestyle. The offerings should complement customers' behaviour. **Not reacting to changes in society can be a costly mistake.** They might lose market share. Demand for their products and services might fall.

14.4.4 How Retail Property Industry Meets the Demand of Customers

The retail property industry meets the demand by proper analysis of the factors of business environment: Market Analysis, Financial Analysis, Location Analysis and legal and political analysis.

1. **Market and Competitive Analysis:** The first step is creating definitions of regions, markets and submarkets either through drive times or a simple radius. Population and the total number of households determine the majority of demand for retail.
2. **Financial Analysis: This st**ep considers the above information and identifies demands for retail expenditures and looks for gaps in the marketplace. Prospective sales estimates are developed and square footage requirements reviewed.
3. **Location and Site Analysis: This ste**p considers linkages and location. Linkages are customers close and far, employee base and sometimes the site of distribution centres. Some location factors are access to urban areas, major arterials, and highways. Is the location adjacent to other existing businesses serving the same demographics? A few site factors to consider include visibility, signage, type of setting and amenities, both for customers and workers.
4. **Political and Legal Analysis:** This analysis questions regarding zoning of the property, presence of any restrictive covenants for business, need for filing a change of use with the building department, any environmental issues that can cause hardship to the current tenants or landlord, and the parking to floor ratio.

Check Your Progress

7. What are the factors affecting the size of the retail property market?
8. How has social media affected the customers' expectations and buying behaviour?
9. How does location and site analysis help in meeting customer demands?

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14.5 USAGE OF INTERNET IN FUTURE

The internet, as it is today, is something many of us take for granted. We have almost forgotten what it used to be like – slow, time-consuming with not as much content. And anyone old enough struggles to remember what it was like in times before we had the internet at all. The whole thing has made quite an advancement, a gradual one that we may not all have noticed. But is this as good as it gets? Is there more to come from the internet? Technology experts believe so and they predict a very exciting internet future and other future of internet technology which can lead us to multifunction future.

14.5.1 Increased Internet Usage

With the rise of global population and improved internet connectivity, it is obvious that internet usage has increased. What is less obvious is the rate at which it has grown and will continue to do so. 2.94 billion people worldwide used the internet in 2014 and 3.14 billion did so a year later. While that is fairly steady growth, it is anticipated that by around 2020 almost 5 billion people will be using the internet, which means almost everybody on the planet will be online. Developing countries playing catch up will finally see their efforts come to fruition and the playing field is expected to be a lot more level in terms of connection speed.

Better Connection

You might think that your current internet connection is pretty good and that it could not be better. You're wrong. What would you say to permanent internet connection? This is a distinct possibility and is already being worked on. The days of password free, overlapping systems could see an internet connection that is never, ever interrupted or lacking in quality. This would be a massive boost for film streaming as anyone who ever watches online movies will tell you that connection issues are the biggest problem they encounter.

Wireless Technology

We currently use phones a lot for our internet usage and this is set to become even more prevalent. 4G is already fairly standard for most of us, but an even better 5G is now just over the horizon. Mobile internet is set to become superfast in the next decade with a much higher percentage of people than now expected to be accessing the internet in this way.

Domination of Cloud Computing

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Cloud computing is already big business, but in the future, it is expected that more if not most services will be available in the cloud. Cloud computing already generates close to $50 billion every year and it is expected to grow and grow in the coming years. A bigger and better cloud infrastructure is already being developed in anticipation of this. Cloud-based software is tipped to dominate.

The Internet of Things

The Internet of Things is a relatively new term; it is a system whereby other items than computers and phones connect with each other. Fridges, clocks and other appliances can be connected using this technology. This is a valuable, time-saving technology and it is going to get better. Within a few years, it is anticipated that this technology will also connect cars, wallets and health-monitoring equipment. Anything that can be connected to the internet eventually will be connected to the internet, and it will soon become yet another technological breakthrough that we would not believe we ever lived without.

Environmentally Friendlier Internet

In all aspects of living, great strides are being made towards making things as environment-friendly as possible. As resources have being plundered, new ways have had to be found in order to produce energy and manufacture things. The internet is no different. Infrastructure is being remodelled to make it more efficient and "greener". A number of companies are already trying to be as green as possible and others are following suit, using the most environmentally sound solutions possible. If the whole planet is going to use the internet, then it makes sense that the internet looks after the planet too. It is going to be essential once some resources run out and prices increase massively.

Earth is not Enough

We are the only planet we know of with the internet, and until proof of other life forms on other planets is verified, in some way we will remain the only planet with the internet. Or will we? Plans are already afoot to create internet access on Mars for when people eventually settle there. This might be a lot further off than just 10 years, but it is a plan that NASA thinks needs to be made already. Once Mars has colonised the idea is that it will be possible to send messages via the internet to friends and family back home and to communicate regularly with Earth. This will be achieved thanks to satellites orbiting the red planet and it is anticipated that it will take 24 minutes to transmit data one way.

14.5.2 Impact of Internet Usage on Retail Property Industry

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Let's discuss how the internet usage impacts the retail property industry.

1. **Use of Property Websites**: Retail property customers are more habitual of searching properties through websites and portals. There are many websites that provide such information on online portals, and the people feel convenient to sort the sites by sitting at home. These websites include the pictures of property sites and all other necessary details which make it easier to be judged.
2. **Knowledgeable Customer:** With the increase of internet usage, customers are full of knowledge about particular thing from buying vegetables, grocery, and fashion apparels or availing any service, it is a trend to first search the information on the internet and this is also applicable on the real estate. On internet people search about the properties and the information related to nearby places and they deal with having full knowledge about that property.
3. **Less Demand of Retail Stores**: The online mode of retail has reduced the demand of retail stores. Only the person who can afford to have the store does business in the store, but the online mode of shopping has made easy for many people to pursue their retail business online through websites or through applications.
4. **Domination of Online Retail**: In future there will be domination of online retail as it will cover more share of trading than offline retail stores. The increase in the online shopping mode has resulted into more use of online apps and websites to purchase anything.

Importance of Future Planning in Retail Property Industry

Strategic planning is an important component of any retail organization for various reasons. First, it allows an organization to understand the company, its history, and the overall industry. A key component of strategy is to write them down and incorporate them into the policy, mission statement, and vision of the company. If in the future, plans become derailed, the organization can return to the initial strategy of the gap they are trying to fulfil within the marketplace. This allows them to understand the competitive advantage they have in the industry as well. In addition, it would allow them to understand the weaknesses and strengths they possess that would hinder or help growth within the organization. Lastly, it would also help them focus on whether or not they are placing efforts and resources on those areas that will drive productivity and profitability.

Check Your Progress

10. What do you understand by the Internet of Things?
11. How has Internet usage affected the retail property market customer?

14.6 IMPACT OF TRANSPORTATION ON RETAIL PROPERTY INDUSTRY

Transportation plays a fundamental role for the social and economic development of large urban areas, as well as significantly affecting the quality of life in such areas.

Mobility and accessibility are two important factors that influence everyday life, social inclusion and the competitiveness of firms and commercial operators.

The quality of urban transit systems also affects real estate values. The higher the quality and quantity of transit system services in an urban area, the higher the active and passive accessibility of the area, and the higher the average real estate values, which further results in high direct benefits due to improved accessibility, reduced generalised trip costs and the lower environmental impacts produced by less use of private cars, investments in transit systems, especially in railways and metros. This may generate an appreciable increase in property values in the zones served; this benefit should be explicitly considered inside cost-benefit analyses.

In terms of social equity, especially if there are major differences between the transit supply in different urban areas, an evident disequilibrium is created. The availability of a high level-of-service transit system is a benefit for property owners as it adds to the value of their properties.

People living in areas not served by good quality transit systems suffer a double disadvantage, i.e., on transportation systems and property values.

Since transit systems are subsidised strongly with public money and, then, by the whole society, a more equitable transit supply should be an important objective of transport policy.

Check Your Progress

12. What is the role of transportation in the retail industry?
13. How does transit supply affect the value of a property?

14.7 FUTURE DESIGNS OF RETAIL STORES

In this section, let us discuss the important aspects of future designs of retail stores.

1. **Customisation**: Stores will increasingly become places that we visit, not simply to pick up mass produced articles but also to design and co-create special things with the personal assistance of experts. Whether it is customising a suit, building a one-of-a-kind notebook computer or designing the perfect bicycle, stores will be the point of collaboration and customisation.

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2. **Less Product and More Production:** With online players like Amazon prepared to ship just about anything we want in a matter of a day or two, our dependency on physical stores for mere distribution will continue to decline rapidly. Smart brands will have no choice but to focus increasing amounts of attention on making their store spaces experiential brand starting points with high production value.
3. **Less Conversion but More Converts:** The purpose of retail will no longer be to solely convert every customer into a buyer of goods but rather transform them into disciples of the brand itself. It will aim towards creating a relationship with the customer – a dialogue that may play out in any number of buying channels, online, in-store, mobile or elsewhere, irrespective of where purchases take place.
4. **Less People but More Performance**: The economics of online competition mean that brick-and-mortar discount merchants will have no alternative but to completely automate their store environments to remain cost-competitive. For instance, Walmart is already heading in this direction. At high-end merchants, stock clerks, cashiers and inventory counters will be similarly replaced with technology.
5. **Less Interruption and More Exchange**: The current practice among retailers of asking for personal information, only to annoy and interrupt with meaningless offers, will give way as consumers garner more tools to filter out these useless overtures. The transition is less about privacy and data and more about earned trust through performance. And the fruits of these data inputs will be almost immediately tangible to customers through clearly personalised services and product offerings, as data latency quickly becomes a thing of the past.
6. **Less Established and More Transient:** Consumers, particularly younger consumers, are developing an insatiable appetite for what is new and next. Therefore, managing the same 100 stores in a mall for years on end simply does not work anymore. Leases will shorten, new retail brands will evolve more quickly, old ones will die sooner and pop-up installations will rotate through the space. Change will be continual. The mall manager's role will become that of editor and curator as the mall becomes a revolving door for new brands and concepts, in a relentless effort to captivate consumers.

Check Your Progress

14. How will the rise of online retail business affect brick-and-mortar shops?
15. What is the future of retail shops in terms of customer retention?

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14.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. 'Brand loyalty' has become a much more prevalent term because customers have so many more options available to them today. It is a common mistake to make a sale without trying to attract repeat business from the customer. In today's business environment, this is often a path to failure. Traditional customer loyalty programs, such as special offers and promotions, are still effective; however, there is now a growing trend of personalisation. It is important to maintain communications with customers in order to keep them loyal to a brand.
2. A niche market is a segment of a larger market that can be defined by its own unique needs, preferences or identity that makes it different from the market at large. It refers to a customer base that always has the same choice; their choice does not change frequently. Therefore, retailers can find this kind of customer base and retain them by fulfilling their needs.
3. There are various methods to handle the rising competition in the market. Some of them are as follows:
   (a) Identifying and solving customers' pain points;
   (b) Setting competitive pricing;
   (c) Adopting changes in business style; and
   (d) Offering better customer service
4. The different attributes are location attributes, legal and regulatory attributes, location attributes and market attributes.
5. The factors affecting the demand of the property market are population, income of individual, taste and preference of user, behavioural factor, motivational and psychological factors.
6. Capitalisation rate is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It determines the net value or the present value of property. Rate applied to NOI determines the present value of the property.

   The formula for finding the present value of property with the help of NOI and Cap Rate is:

   Market Value = NOI/ Cap Rate
7. The retail market size is affected by various factors, including demand and supply, location, infrastructure, customisation, and availability of property loans.
8. Social media's "open book" approach to socialising has led to an expectation that brands should be monitoring any mentions on social media and responding accordingly. Whether this is a direct complaint or message or

whether it is just a mention, consumers expect brands to be listening and be ready to respond. Social media connects businesses and consumers through an instant feed of live updates, breaking news and messages. This has effectively sped up the time consumers expect it to take a brand (or anyone) to reply to a message.

9. Location and site analysis considers linkages and location. Linkages are customers close and far, employee base and sometimes the site of distribution centres. Some location factors are access to urban areas, major arterials, and highways.
10. The Internet of Things is a relatively new term; it is a system whereby other items than computers and phones connect with each other. Fridges, clocks and other appliances can be connected using this technology. It is a valuable, time-saving technology and it is going to get better. Within a few years, it is anticipated that this technology will also connect cars, wallets and health-monitoring equipment. Anything that can be connected to the internet eventually will be connected to the internet.
11. With the increase of Internet usage, customers are full of knowledge about particular thing from buying vegetables, grocery, and fashion apparels or availing any service, it is a trend to first search the information on the internet and this is also applicable on the real estate. On the internet, people search about the properties and the information related to nearby places and they deal with having full knowledge about that property.
12. Transportation plays a fundamental role for the social and economic development of large urban areas, as well as significantly affecting the quality of life in such areas. The quality of urban transit systems also affects real estate values. The higher the quality and quantity of transit system services in an urban area, the higher the active and passive accessibility of the area, and the higher the average real estate values, which further results in high direct benefits due to improved accessibility, reduced generalised trip costs and the lower environmental impacts produced by less use of private cars, investments in transit systems, especially in railways and metros.
13. In terms of social equity, especially if there are major differences between the transit supply in different urban areas, an evident disequilibrium is created. The availability of a high level-of-service transit system is a benefit for property owners as it adds to the value of their properties.
14. The economics of online competition mean that brick-and-mortar discount merchants will have no alternative but to completely automate their store environments to remain cost-competitive. For instance, Walmart is already heading in this direction.

15 The purpose of retail will no longer be to solely convert every customer into a buyer of goods but rather transform them into disciples of the brand itself. It will aim towards creating a relationship with the customer – a dialogue

that may play out in any number of buying channels, online, in-store, mobile or elsewhere, irrespective of where purchases take place.

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14.9 SUMMARY

- The future of retailing is shifting more towards online portals as there is a large section of consumers shifting to online market. There are new platforms, systems and technologies to start a retail business.
- Some of the challenges faced by the retail property industry are digital disruption, customer retention, finding technology solutions, evolving customer expectations, modern marketing, inspiring and retaining employees, and internal communications.
- There various methods to handle the rising competition in the market include identifying and solving customers' pain points; finding a niche in the market; setting competitive pricing; adopting changes in business style; and offering better customer service.
- Market analysis is the study of the attractiveness and the dynamics of a special market within a special industry. It helps in SWOT analysis of a company.
- The process of market analysis of a property includes the following steps:
    - Defining Product Property Productivity Analysis
    - Defining User Market Delineation
    - Forecasting Demand Factors
    - Analysing Inventory and Forecast Competitive Supply
    - Analysing Interaction of Supply and Demand
    - Forecasting Subject Capture
- The financial valuation of property is based on absolute basis of valuation and relative basis of valuation.
- There are three methods of financial appraisal of a property: Discounting future Net Operating Income (NOI), the capitalisation rate method and the gross income multiplier method.
- NOI calculation of real estate is similar to the earnings before interest, taxes, depreciation and amortisation.
- Capitalisation rate is the required rate of return on real estate. It can also be termed as net value appreciation of property or depreciation. It determines the net value or the present value of property.
- There are three ways to determine the cap rate of a property: Build-up method, market extraction method and the band of investment method.

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- The Gross Income Multiplier Method is based on the assumption that the valuation of property in the same area will be valuated proportionally to the gross income generated by that property.
- Property analysis is the summarised description of the property covering each and every aspect of property; it is useful in understanding the property's value in the market place.
- The future trend of retail customer will be an Omni channel of purchasing.
- The retail market size is affected by various factors, including demand and supply, location, infrastructure, customisation, and availability of property loans.
- Customers' expectations and buying behaviour are affected by various factors, including social media, huge information processing, self-service generation, 24/7 customer service, omni-channel service, and need for personalised customer service.
- Changes in social factors can impact a firm in many different ways. Most companies analyse population growth and age structure. They also show interest in consumer attitudes and lifestyle changes. The analysis can show if there are faults in the marketing strategy.
- The retail property industry meets the demand by proper analysis of the factors of business environment: Market Analysis, Financial Analysis, Location Analysis and legal and political analysis.
- The Internet of Things is a relatively new term and it is basically a system whereby other items than computers and phones connect with each other.
- This is a valuable, time-saving technology and it is going to get better.
- The online mode of retail has reduced the demand of retail stores. Only the person who can afford to have the store does business in the store.
- In future there will be domination of online retail as it will cover more share of trading than offline retail stores. Stores will increasingly become places that we visit, not simply to pick up mass produced articles but also to design and co-create special things with the personal assistance of experts.

14.10 KEY WORDS

- **Virtual Reality:** Virtual reality is a simulated experience that can be similar to or completely different from the real world. Applications of virtual reality include entertainment and education. Other distinct types of VR-style technology include augmented reality and mixed reality, sometimes referred to as extended reality or XR.
- **Internet of Things:** The Internet of things describes the network of physical objects—"things"—that are embedded with sensors, software, and other

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technologies for the purpose of connecting and exchanging data with other devices and systems over the Internet.

- **Brick-And-Mortar:** Brick and mortar refers to a physical presence of an organization or business in a building or other structure. The term brick-and-mortar business is often used to refer to a company that possesses or leases retail shops, factory production facilities, or warehouses for its operations.
- **SWOT Analysis:** SWOT analysis is a strategic planning technique used to help a person or organization identify strengths, weaknesses, opportunities, and threats related to business competition or project planning.

14.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are some methods to deal with rising competition?
2. Write a short note on the future usage of Internet.
3. How do social trends influence customers?
4. Mention the factors meeting the demand of customers by retail property industry.
5. Write a short note on any three future designs of retail stores.

Long-Answer Questions

1. Discuss the future of retailers.
2. Explain the future conditions of the retail property customers.
3. Examine how social factors affect the retail market size.
4. Describe the impact of internet usage on the retail industry.
5. Discuss how transportation affects the retail property industry.

14.12 FURTHER READINGS

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