

# A STUDY TO DETERMINE THE OPTIMAL TENANT MIX IN SHOPPING CENTRES



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## **ABSTRACT**

In South Africa,  $\pm 2\,000$  formal shopping centres are ranging from  $1\,000\text{m}^2$  up to more than  $170\,000\text{m}^2$ . These centres represent  $>23$  million  $\text{m}^2$  of an estimated 37 million  $\text{m}^2$  of all retail facilities. With such major investments in shopping centres, it is no surprise that there are considerable efforts by developers and shopping centre management to find the “elusive” optimal tenant mix.

Hence, the purpose of this investigation is to develop a practical, easy-to-use method that can be employed by centre management to determine an optimal tenant mix in shopping centres.

Many studies have been done to establish the optimal tenant mix of a shopping centre. Currently, there are no universally agreed models or formulae that can be applied for maximum success. Establishing an optimal tenant mix is not an exact science. It is an art, craft and has some science, but it is not a science. Determining the optimal tenant mix can be an intricate and complicated process without any guarantee of success.

The study examined popular tenant mix approaches and models employed by shopping centre owners and managers. These range from quantitative econometric models to qualitative approaches as well as hybrid models.

Based on an extensive literature review, case study analysis and interviews with experts in the local shopping centre industry, the study developed a user-friendly, step-wise approach, applying relevant theoretical underpinnings, to determine an optimal tenant mix, instead of a mathematically-proven formula or econometric model, which are questionable and complicated.

The Law of Retail Gravitation states that customers are willing to travel longer distances to larger retail centres given the higher attraction they present to customers.

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## DEFINITIONS

<b>Anchor tenant</b>	A tenant retailer (national and international chain store) in a shopping centre that increases, through its name, brand and reputation, the traffic of shoppers at or near its location. It usually enjoys a privileged position with regard to rent and service charges.
<b>Balanced tenancy</b>	Stores in a planned shopping centre complement each other in the quality and variety of their product offerings, and the kind and number of stores are linked to the overall needs of the surrounding population.
<b>Central place theory</b>	It is based on the hypothesis that consumers will use the nearest supplier of a good or service.
<b>Core-periphery relationship</b>	The “core” of a shopping centre is the agglomeration of anchors, high comparison goods and services, and the popular/fashion retail categories. The periphery, on the other hand, is the retail/service providers in a supplementary role. Therefore, the retailers locating in the “peak pitch” of pedestrian flows are the “core” stores, whilst periphery stores are usually located in the surrounding locations.
<b>Inter-store externalities</b>	It is the interactive forces among tenants that can be internalised/managed to maximise profits for the whole shopping centre.
<b>Optimal</b>	The best possible or most advantageous in the context of a particular shopping centre.
<b>Optimal tenant mix</b>	A situation in which there is a balanced diversification of shops in the centre by offering a wide range of products and services; a specific image for the centre; maximum sales potential in the trade area; a synergy between the satellite tenants; a logical layout of shops; a pleasant shopping environment; enough variety to create the maximum attractiveness to the population of the specific trade area; and maximum return on investment.
<b>Principle of minimum differentiation</b>	The principle suggests, in a retailing context, that a given number of stores operating within the same market sector will achieve superior performance if they are clustered together.
<b>Retail tenant strategy</b>	The complexities involved in the creation of a coherent plan to develop a shopping centre that at a minimum meets the expectations of key role players.

<b>Shopping centre</b>	An agglomeration of various retailers and commercial service providers within a well-planned, designed and managed building or a group of buildings as a unit.
<b>Spatial interaction theory</b>	It is based on the hypothesis that consumers trade off the attractiveness of alternative shopping areas against the deterrent effect of distance.
<b>Tenant mix</b>	A variety of stores that work well together to enhance the performance of the entire centre as well as performing successfully as individual businesses.
<b>Theory of cumulative attraction</b>	A given number of stores dealing in the same merchandise will do more business if they are located adjacent or in proximity to each other than if they are widely scattered.
<b>Traffic users</b>	Retailers and service providers (non-anchor tenants) in a shopping centre depend on the visitors drawn by the traffic attractors (anchor tenants).
<b>Traffic attractors</b>	The retailer that draws the human traffic to the shopping centre and controls the customer movement patterns in the centre.

## EXECUTIVE SUMMARY

**Chapter One - Introduction:** In South Africa,  $\pm 2\,000$  formal shopping centres are ranging from  $1\,000\text{m}^2$  up to more than  $170\,000\text{m}^2$ . These centres represent  $>23$  million  $\text{m}^2$  of an estimated  $37$  million  $\text{m}^2$  of all retail facilities. With such major investments in shopping centres, it is no surprise that there are considerable efforts by developers and shopping centre management to find the “elusive” optimal tenant mix.

Hence, the purpose of this investigation is to develop a practical, easy-to-use method that can be employed by centre management to determine an optimal tenant mix in shopping centres.

Many studies have been done to establish the optimal tenant mix of a shopping centre. Currently, there are no universally agreed models or formulae that can be applied for maximum success. Establishing an optimal tenant mix is not an exact science. It is an art, craft and has some science, but it is not a science. Determining the optimal tenant mix can be an intricate and complicated process without any guarantee of success.

South Africa is characterised by one of the highest inequality rates and the geography and economics of apartheid. Therefore, it is common in a catchment area to find consumers with vastly different income levels visiting the same shopping centre. This complicates tenant mix models.

Despite the importance of tenant mix within retail environments, there appears to be little or no research on micro-placement and spatial location of non-anchor stores in new shopping centres. The selection and space allocation process of major space users have received more attention from real estate investors and property researchers. They assert that the details of letting of smaller tenants or non-anchors are often left in the charge of leasing agents and this is a process that is not as well-documented. Moreover, shopping centre owners are more concerned with a return on investment, and who can pay the most rent than on the tenant mix and who is best for the centre. Under these circumstances, it is not surprising to find that an ideal tenant mix can be a conundrum for centre managers.

**Chapter Two - Literature Review:** Generally, two major considerations need to be made during the selection of tenants to obtain the most appropriate tenant mix: the size, number and nature of tenants or stores in the shopping centre; and the position of these stores in relation to each other and the centre’s entrances.

Another crucial aspect in determining the optimal tenant mix is the configuration of the centre concerning store location. The centre configuration often influences the direction of footfall through the centre. Stores should be laid out in such a manner that they encourage consumer spending while creating a convenient layout for consumers. Foot traffic through a centre is guided by tenant location and their requirements. The following characteristics are popular for optimal placement of tenants in a shopping centre:

- (i) Anchor or magnet stores should be placed at opposite ends of the centre with space between them being lined with smaller retailers.



- (ii) Anchor tenants and centre entrances should be fairly far apart to encourage the flow of foot traffic through the centre.
- (iii) Formation of cul-de-sacs should be avoided since they disturb the flow of traffic through the centre.
- (iv) Retailers offering services should be positioned in the side wings near entry/exit points at the centre.
- (v) Retailers such as pet shops and dry cleaners should be placed a distance from food outlets and food outlets should be placed a distance from fashion retailers.
- (vi) In multi-storey centres, an even distribution of customers should be maintained with the use of escalators for ease of access and by distributing food outlets and eating facilities.

Many researchers subscribe to the notion of a balanced tenancy. It is one in which the stores in a centre are complementary in terms of their product offerings and quality. She adds that the type and number of these stores should be related to the needs of the community within the trade area of the centre.

The Rent Bid Theory states that space allocation in a shopping centre is decided by the stores' locations in terms of distance from the centre point of the shopping centre. The size of a store, its total rent, and its gross sales, all differ according to the location of the store in the shopping centre. Consumers favour stores which they can easily access in a given arrangement and are said to generate more customer density with all other variables being held constant.

The Central Place aims to ascertain the spatial arrangement, number and size of settlements. It was later applied in a retail context, following their study of retail stores and their spatial affinities in CBDs of sample cities in the United States. This theory posits that insights into the spatial configuration in a shopping centre setting have the potential to assist with design optimisation and with making decisions concerning tenant mix.

The behaviour of clustered firms offering homogeneous products is described by the Principle of Minimum Differentiation. This theory states that a specified number of stores which offer the same merchandise will do more business when they are situated adjacent to or close to each other than when they are far apart.

**Chapter Three - Research Design and Methods:** The study employed mixed-methods research which includes a literature review, observation, interviews and a case study.

A literature review of the tenant mix is conducted. These range from sophisticated, econometric methods to more simple, cost-effective methods. The purpose is to present various research methods that can be chosen on their budgets, skills and time frames.

Interviews were conducted with ten experts involved with shopping centres in various capacities. These include a portfolio manager, operations manager, tenant coordinator, centre manager, architect, market researcher, CEO, director and interior designer. The interviews are conducted using a semi-structured interview schedule. The schedule encompasses broad probing questions covering key themes in the study. All questions are open-ended.

Purposive sampling is used to select centre managers for interviews. In purposive sampling, interviewees are selected on pre-determined criteria relevant to the research issues under consideration.

Direct observation is used of the retail mix at the shopping centres in Durban, Johannesburg and Cape Town.

This study has validity and reliability in that there is integrity in the application of the research methods employed, and the precision in which the findings accurately reflect the data, as well as the consistency in the use of the analytical procedures.

Data collected through various research methods were triangulated. The objective of data analysis is to link and integrate categories in such a way that variation is captured inductively.

**Chapter Four – Analysis of Findings:** A common method to identify a site for a new shopping centre build is trade area analysis, which involves estimating the trade area to be served by the new shopping centre.

Another process involves the following: identify the objectives of the project; develop a location research method(s); determine the number of prototype stores envisaged; forecast office (store) analysis forecasts and field analysis; analyse, evaluate and apply data; consider field analysis findings; and make the final decision.

Developers take advantage of information technology and geographic information systems (GIS) that enable the handling of both spatial and non-spatial data for constructing thematic maps depicting a variety of demographic information relating to population, housing, and economic activities. The GIS has a utility for shopping mall location selection, which is one of the core business activities of developers for long-term capital investment. A GIS-based system uses electronic mapping technology in producing interactive multi-layer maps so that queries are set to find optimal solutions for problems. It combines spatial and non-spatial data to construct visualised information that can be easily analysed by decision makers and that cannot be achieved in table or list forms.

The selection of the key or anchor tenant is the first critical factor. After the selection of the anchor, decisions can be made about identifying the appropriate variety of tenants to create an image that differentiates the centre; selecting tenants that help each other increase sales by creating centre synergy; selecting tenants for financial stability to satisfy underwriting requirements; setting total charges — rent, common area maintenance, taxes, insurance, and particularly percentage rent — to fairly compensate for the risk involved in creating a successful centre with high sales volume; and establishing tenant control through leases to offer the landlord some degree of management of risk.

The two features of the tenant mix problem lend complexity to its formulation. One is the presence of "interaction effects" between stores of the same type, i.e. the dependence of one store's sales on several other stores similar to it in the mall. Consumers are drawn to a mall by a balance of variety and homogeneity of stores. A customer with a long and varied list of items to buy will be attracted to a mall with many kinds of stores. A tenant mix for a regional

shopping mall is designed to attract both customers. To use “interaction effects’ optimally, the tenant mix should contain “enough” of each type of tenant but not “too many”.

A new trend in the property market is mix-use developments which attract tenants who desire the work-play-live environment. In an era where time is scarce and crime is a concern, the mix-use concept has a lot to offer, not least because it keeps evolving. The Melrose Arch in Johannesburg has a large component of commercial office property on-site, the development includes bars, restaurants and coffee shops, more than 100 retailers, a Virgin Active gym, the high-end Daytona automotive dealership and prestigious apartment blocks. Residents and working professionals have everything they need on their doorstep, without having to get into their cars and worry about safety.

The shopping centre industry has changed dramatically in recent times. Technology, online shopping, social media, climate change, volatile domestic markets, and intense retail competition have compelled shopping centre owners to innovate so that they can differentiate their mall from the one nearby. Another key aspect to consider is the impact technology and digital advancement is having on consumer purchasing habits. Technology has given the consumer the tools to put them in a position to demand a tailored, seamless and multichannel shopping experience and a social media powered experience. Shopping centres need to have a blend of physical, technology and digital approaches.

A substantive body of research suggests that shopping has turned into an experiential activity. Retailers seek manifest ways to generate entertaining shopping experiences as a source of competitive advantage. Shopping has shifted to the realm of emotional, novel, memorable, aesthetic, engaging and recreational customer experiences, and this necessitates that retailers innovate and create enhanced channels for ensuring such experiences.

Green sustainability, recycling, waste management and environmental concerns are getting more traction with formal and informal role-players involved. Retailers worldwide are making their stores environmentally sustainable, a strategy that is good for the earth and is also good for business.

Dubai's City Centre Mirdif Mall is 40% more energy efficient than others in the area. It reduces energy costs by \$350 000 a year. Energy efficiency was extended to their food court with the aid of smoke and heat detectors installed in cooker hoods to automatically adjust the fan speed. This instalment saved 55% energy and 46% is saved on chilled water.

The Victoria Wharf Shopping Centre in Cape Town’s V&A Waterfront has been awarded the highest environmental rating of any existing shopping centre in South Africa. It has been crowned SA’s greenest shopping centre, following an extensive strategy to enhance its green footprint.

Focus on energy and water monitoring, along with management policies and plans are required to achieve a 5-Star rating. The rating tool also measures the relationship between landlords and tenants. Setting up a win-win situation.

**Chapter Five – Recommendations:** The study developed a practical, user-friendly method to determine the optimal tenant mix involving six steps:

Step One: Identify Centre Location and Trade Area

Step Two: Create a Unique Identity and Image for the Shopping Centre

Step Three: Conduct Consumer Research

Step Four: Develop A Tenant Mix Policy and Strategy

Step Five: Determine and Apply Criteria to Select Tenants and Allocate Space

Step Six: Placement of Tenants in a Shopping Centre

## **CHAPTER ONE: INTRODUCTION**

### **1.1 INTRODUCTION**

Retail constitutes a significant part of the urban environment in modern economies. In South Africa, ± 2 000 formal shopping centres are ranging from 1 000m<sup>2</sup> up to more than 170 000m<sup>2</sup>. These centres represent >23 million m<sup>2</sup> of an estimated 37 million m<sup>2</sup> of all retail facilities. The country has the 5th highest number of shopping centres in the world.

South Africa also ranks as sub-Saharan Africa's most saturated retail market, representing 88% of the available space in the region. It has been established that around 69% of the aggregate shopping centre floor space can be attributed to multi-tenanted centres with gross lettable areas (GLA) of 5 000m<sup>2</sup> to 49 000m<sup>2</sup> while Regional and Super Regional Malls (those larger than 50 000m<sup>2</sup> ) account for 22% of total shopping centre GLA. Other retail types account for the balance of around 9% (Prinsloo 2016). These include big-box retailers, airport retail, smaller freestanding and local convenience centres.

With such major investments in shopping centres and the fierce competition for customers among them country-wide, it is no surprise that there are considerable efforts by shopping centre management to find the "elusive" optimal tenant mix.

Recent studies have pointed to the increasing importance of tenant mix in the success of shopping centres. Downie et al. (2002) state that for a shopping centre to maintain its asset value, the landlord needs to monitor and adjust the tenant mix regularly. Nicholls et al. (2002) reviewed the change of shopping centre patrons in the past decade and found a greater concern for merchandise selection. Tenant mix is also found to be important due to the one-stop-shopping trend. For example, Kaufman & Lane (1996) showed that one-stop shopping is the most important determinant in the shopping centre's patronage. Hunter (2006), who studied the relationship between the image of a mall and shopping centre visits, also posited that an ideal tenant mix is the first major criterion for a good mall image. Teller and Reutterer (2008) tested empirically the ten factors of mall attractiveness and found that tenant mix is one of the most important determinants to the attractiveness of a mall. Kyriazis & Cloete (2018) maintains that the lifecycle of shopping centres will be extended by continuous adjustment of tenant mix to meet the changing demands of their customers.

Many studies have been done to establish the optimal tenant mix of a shopping centre. However, there are no universally agreed models or formulae that can be applied for maximum success. Establishing an optimal tenant mix is not an exact science. It is an art, craft and has some science, but it is not a science. Determining the optimal tenant mix can be an intricate and complicated process without any guarantee of success.

LeHew and Fairhurst (2000) mention that the studies on tenant mix are qualitative and there is no formula for management to obtain the tenant mix synergy. Tenant mix choices are considered by Kirkup and Rafiq (1989) a very difficult task due to "a lack of empirical research

to guide developers in their planning, and much is therefore based on “experience and intuition”(pg no).

The Institute of Real Estate Management (1990) opined that there is no single optimal tenant mix for shopping malls since the tenant mix of an individual mall should be tailored to meet specifications like location, size, the demographic profile, catchment area and customer needs. Similarly, Alexander and Muhlebach (1992) posited that a proper mix for one mall could be a mistake for another mall. Bruwer (1996) contends that “whereas there is frequent reference in retailing literature to the importance of tenant mix for shopping centres, published research about the so-called “ideal” tenant mix is almost non-existent”.

Therefore, a more rational approach might be to develop a well-contrived method, applying relevant theoretical underpinnings, to determine an optimal tenant mix instead of a mathematically proven formula or econometric model, which to date are questionable and complicated. A logical, stepwise and user-friendly approach might prove to be a better option.

Tenant mix is not a static condition. The market changes over time, as do customer preferences and fashion trends. Therefore, even the “ideal” condition achieved in one season or period might not be suitable for another. Since the retail industry is competitive, the actions of competitors influence marketing strategies. Consequently, centre managers have to adjust their tenant mix constantly to keep up with the market trends. Under these circumstances, it is not surprising to find that an ideal tenant mix can be a puzzle for centre management (Yuo et al. 2003).

The preceding preamble illustrates the critical role that retail tenant mix plays in creating and maintaining a successful shopping centre. Therefore, it can be expected that property professionals have a clear and concise methodology to assist them in their decision-making process when selecting a tenant for the shopping centre (Naidoo 2017).

This study seeks to contribute to devising a practical, easy-to-use methodological approach for determining a shopping centre’s tenant mix.

## **1.2 PROBLEM STATEMENT**

The shopping centre is an agglomeration of various retailers and service providers within a well-planned, designed and managed building or a group of buildings as a unit (ICSC 2002). This definition implies that the agglomeration of retail activities in a shopping centre is well-planned and controlled by the centre management. Therefore, the interactive forces among tenants being the “inter-store externalities” can be managed to maximise profits for the whole shopping centre (Yuo et al., 2003). This cluster of retail and service providers in shopping centres is termed the “tenant mix” (Bruwer 1997; Downie et al., 2002).

Previous research suggested that tenant mix is one of the most crucial factors in the overall success of a shopping centre (Bruwer 1997). The creation and management of retail tenant mix strategies are primarily based on “professional experience and rules of thumb” (Hernandez 2000).

Some managers engage in tenant mixing based on personal experiences, guesswork and hunches. For example, a shopping centre with more than 100 retail units results in an infinite combination of tenant mix arrangements. There is also the issue of leasing arrangements which may prevent tenant mix during the life cycle of the shopping centre.

Despite these contentions, little literature exists to support retail professionals in their strategic decision-making process (Burnaz and Topcu, 2011).

The phenomenon of tenant mix is not a static condition. The market, consumer preferences, fashion trends, income levels and nature of the catchment area tends to change over time. Therefore, the tenant mix combination at a given time may not work a few years later. Consequently, centre management would need to modify their tenant mix to keep abreast with market conditions.

South Africa is characterised by one of the highest inequality rates and the geography and economics of apartheid. Therefore, it is common in a catchment area to find consumers with vastly different income levels visiting the same shopping centre. This complicates tenant mix models.

The Rosebank Mall in Johannesburg serves the affluent Houghton area and lower-income areas of Observatory, Hillbrow and Yeoville. The Mall of Africa in Midrand serves the high-income area of Waterfall, middle-income area of Midrand and low-income area of Tembisa in its catchment area. In KwaZulu-Natal, the Gateway Shopping Mall serves the high-income residential and business area of Umhlanga and the working-class townships of Cornubia and Phoenix. A similar pattern prevails with the Century City Shopping Centre in Cape Town. This presents centre management with unique challenges. The standard “textbook” models are of little usage here.

Kirkup and Rafiq (2005) state that despite the importance of the tenant mix within retail environments, there appears to be little or no research on micro-placement and spatial location of non-anchor stores in new shopping centres. McGoldrick and Thompson (192?) concur that the selection and space allocation process of major space users has received more attention from real estate and business management researchers. They assert that the details of letting of smaller tenants or non-anchors are often left in the charge of leasing agents and this is a process that is not as well-documented.

In a survey done by Nicholls (1997), consumers tend to shop at shopping centres located beyond primary catchment areas due to the lack of choices in goods and services provided by the shops near their houses. Therefore, Nicholls, (1997) concluded that the shopping centres that offer a variety of goods and services that are not available in an area can, therefore, retain local expenditure and capture sales from competing centres. This exerts additional pressure on centre management to look beyond their catchment area.

Sullivan (1988) states that too often shopping centre owners are more concerned with a return on investment and who can pay the most rent than on the tenant mix and who is best for the centre. Under these circumstances, it is not surprising to find that an ideal tenant mix can be a conundrum for centre managers.

### **1.3 PURPOSE**

The purpose of this research study is to develop a practical, easy-to-use method that can be employed by centre management to determine an optimal tenant mix in shopping centres.

### **1.4 OBJECTIVES**

The objectives of the study are the following:

- Analyse current methods, models and formulae that are employed to obtain an optimal tenant mix.
- Determine the views of shopping centre management on tenant mix planning and identify challenges in obtaining the optimal tenant mix.
- Identify trends shaping tenant mix strategies in shopping centres.
- Devise a method for shopping centre management to obtain the optimal tenant mix by employing a practical, easy-to-use method.

### **1.5 KEY RESEARCH QUESTIONS**

The key research question is the following:

**What is a practical, easy-to-use method that can be employed by management to determine the optimal tenant mix in shopping centres?**

To respond to the above question, the following secondary research questions are addressed.

- What methods are employed currently to obtain an optimal tenant mix?
- What are the views of shopping centre management on tenant mix concerning challenges faced by them?
- What are the trends shaping tenant mix strategies in shopping centres?
- What is an appropriate method for shopping centre management to obtain the optimal tenant mix?



## **1.6 LIMITATIONS**

The following limitations to the investigation have come to light:

- There is no sound theoretical or conceptual framework for the analysis of factors influencing the store's economic performance in the cluster of shopping centres.
- Past theoretical studies mostly focus on the agglomeration of stores in the shopping centre and empirical retail rent studies concentrate on the investigation of factors related to the stand-alone shopping centre.
- There is a paucity of academic research on tenant mix in shopping centres, especially in the South African context.
- Qualitative research requires engaging in extensive fieldwork where data collection is mainly by interviews and observations. This is a costly and time-consuming exercise.
- Researchers bring their own experience to bear in pursuing questions to ask and reviewing data, which can lead to biases in directions of inquiry and analysis.
- Shopping centre managers are busy and reluctant to put “trade secrets” in the public domain, even for academic research. Therefore, it is a challenge to secure interviews or get them to complete surveys.

## **1.7 RESEARCH DESIGN AND METHODS**

A detailed description of the research design, sampling, methods and analysis are provided in Chapter Three of this study. A mixed-method is an approach to investigate the primary research problem of the optimal tenant mix.

## **1.8 CONCLUSION**

This study develops an appropriate method that can be employed by centre management to determine an optimal tenant mix in shopping centres.

There is a substantial body of knowledge to indicate that the tenant mix is a critical factor in the overall success of shopping centres. It increases customer loyalty, grows footfall, and the profitability of retailers and the shopping centre investors.

Competition among South Africa's shopping centres is intense, with more than 23 million m<sup>2</sup> of retail space in shopping centres alone. Currently, there is an excess of 2 000 existing shopping centres and close to 3 million square metres of formal retail space in the pipeline. In a tough trading environment with the hyper-competition, retailers and shopping centre

owners are doing everything possible to "keep their heads above water". Hence, there is a need for shopping centres to find the "elusive" optimal tenant mix.

Whilst many studies have been done to establish the optimal tenant mix of a shopping centre, there are no universally agreed models or formulae that can be applied for maximum success. Establishing an optimal tenant mix is not an exact science. Determining the optimal tenant mix can be an intricate and complicated process without any guarantee of success.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 SHOPPING CENTRES

Shopping centres have become an integral part of consumers' routines. According to Garg and Steyn (2015), South Africa alone has 1 619 formal shopping centres, while the USA ranked first worldwide having a total of 115 438 shopping centres (Prinsloo 2010). The International Council of Shopping Centres or the ICSC (1999) states that shopping centres exist in the main physical configurations of malls or open-air/strip centres, and more recently, in the form of "hybrid centres" (Pitt & Musa 2009).

The ICSC (1999) defines shopping centres as being a collection of retail and other such commercial establishments, which are "planned, developed, owned and managed as a single property". This definition is reinforced by Pitt & Musa (2009), who describe a "shopping centre" as a building which contains many units of stores, managed as one property.

Consumers frequent shopping centres to fulfil various needs, ranging from grocery or merchandise shopping to the need for leisure and entertainment. Shopping centres cater for a host of consumer requirements and comprise stores providing a variety of goods and services. Goods offered include the likes of food, fresh produce, clothing, pharmaceutical products, stationery and even jewellery. Services often include those such as postal and freight services, internet cafés and beauty salons. Haque & Rahman (2009) mention that shopping centres can also be described as clean, safe places in which retail, entertainment and leisure businesses operate from a single, enclosed building with parking facilities. Consumers can spend their time and shop in a "pleasurable atmosphere".

According to ICSC (2015), the shopping centre industry is transforming fast in response to the new age consumer. These "new age customers" now commonly utilise digital media such as personal computers and smartphones and make use of in-store information and sales associates to make informed decisions before product selection.

### 2.2 SHOPPING CENTRE CONFIGURATIONS

Shopping centres have evolved over the decades resulting in three major configurations.

#### 2.2.1 Open-air Centres

Open-air centres, according to the ICSC (1999) and Pitt & Musa (2009), consist of a row of stores or outlets providing services, which are attached and managed as a unit. They can also be identified as a string of stores situated on a single property (Casazza *et al.* 1985). These centres are also called "strip centres", due to their strip-like configuration. Visser (2010) describes this centre configuration as being "linear". There is on-site parking which is generally situated in front of the stores (Pitt & Musa 2009). Storefronts may be connected by open canopies; however, walkways linking stores are not enclosed (ICSC 1999).

### **2.2.2. Malls**

Shopping malls can be described as those centres which are enclosed and air-conditioned (ICSC 1999). Visser (2010) defines a mall as any shopping centre which possesses outbuildings and parking adjacent to the buildings. The centres are also typically well-lit, and “flanked on one or both sides by storefronts and entrances” (Pitt & Musa 2009). This configuration is most typically assumed by regional and super-regional centres (ICSC 1999). Visser (2010) states that this type of centre contains at least one anchor store accompanied by several smaller outlets.

### **2.2.3 Hybrid Centres**

These centres combine certain elements from at least two of the “basic classifications” or types of shopping centres. Coleman (2006) describes hybrid centres as deliberate combinations of open-air or strip centres and enclosed centres, and as “the best of both worlds”.

## **2.3 TYPES OF SHOPPING CENTRES**

According to Pitt & Musa (2009), today's shopping centres are more complex concerning their sizes, types and their features. As a result, a host of different shopping centre types have evolved.

### **2.3.1 Small Free-standing Convenience Centres**

These types of centres act as single-destination convenience centres, service one or two adjoining suburbs and provide daily necessities such as milk and bread to the locals (Prinsloo 2010). According to Visser (2010), these types of shopping centres cater to the needs of 700 to 3 600 homes and are between 500 to 5 000 square metres in size.

Prinsloo (2010) states that these centres may consist of a single building or a collection of buildings. As a result, he states that there could be a single tenant or several tenants (depending on the number of shops). Small free-standing convenience centres typically have one anchor tenant (Harmse 2012).

### **2.3.2 Neighbourhood Centres**

Neighbourhood centres are larger than small free-standing convenience centres. They serve as convenience and express convenience centres (Prinsloo 2010). According to Berman &

Evans (2010), this type of centre typically services the immediate neighbourhood within the range of two kilometres. Neighbourhood centres are about 5 000 to 12 000 square metres in size.

The ICSC (1999) states that about 50% of neighbourhood centres have a supermarket anchor, while approximately one-third are anchored by drugstores. Prinsloo (2010) suggests that the three critical factors are at least one popular anchor tenant, sufficient parking space and good access.

### **2.3.3 Community Centres**

Community centres are bigger than neighbourhood centres, and typically have a discount department store anchor tenant (Levy & Weitz 2009). Prinsloo (2010) states that more households are serviced by these types of centres, as they have a large catchment area. These centres have a square meterage of 12 000 to 25 000. Their configurations usually take the form of the “L” or “U” shapes or are arranged in a straight line or strip (ICSC 1999).

Community centres may also include more anchors than the number possessed by neighbourhood centres (Levy & Weitz 2009). Anchor tenants are usually supermarkets such as Pick 'n Pay (larger than 2 500 m<sup>2</sup>), while services such as restaurants, banking and medical facilities often constitute the remainder of the tenants (Harmse 2012).

### **2.3.4 Small Regional Centres**

Prinsloo (2010) indicates that these centres are 25 000 to 50 000 square metres and offer a wider selection of tenants than Community Centres. These centres typically have one supermarket anchor such as Checkers, which is usually larger than 4 000 m<sup>2</sup> (Harmse, 2012). Visser (2010) suggests that these centres often also include a popular national fashion store anchor tenant. In rural areas, these centres are said to serve a more regional role (Prinsloo 2010). Hence, they can also be regarded as “small regional centres”.

### **2.3.5 Regional Centres**

Visser (2010) describes these types of centres as having a large variety of tenants, and typically offering “comparison goods and services”. Schiller (2001) states that these centres offer durable goods. They are 50 000 to 100 000 m<sup>2</sup> in size, and tend to offer more entertainment options, especially appealing to evening and holiday visitors (Prinsloo 2010). Anchor tenants at these centres, as described by the ICSC (1999), are usually mass merchants, discount departments outlets, speciality apparel stores and traditional stores.

According to Pitt & Musa (2009), regional centres are often referred to as ‘shopping malls’. They describe these centres as being closed retail spaces, with air conditioning and good lighting. Prinsloo (2010) states that these centres tend to catalyse the development of “mixed-

use nodes" including retail buildings, office blocks, hotels, entertainment and residential spaces.

### **2.3.6 Super Regional Centres**

The ICSC (1999) states that super-regional shopping centres are similar to regional centres but larger. Pitt & Musa (2009) also describe super-regional centres as being referred to as "shopping malls". These centres are typically more than 100 000 square metres in size (Prinsloo 2010).

Super regional centres have more anchor tenants than regional centres, a wider selection of merchandise and service a larger population base (ICSC 1999). These centres typically have 6-7 anchor tenants providing groceries, homeware, apparel, entertainment, health & beauty outlets and banking services (Prinsloo 2010; Harmse 2012).

### **2.3.7 Lifestyle Centres**

Prinsloo (2010) indicates that these centres are not very popular in the South African context. He states that these centres are generally 15 000- 50 000 m<sup>2</sup>. Coleman (2006) states that lifestyle centres target a certain sector of the market, i.e. "the young urban professionals". He states that these centres comprise selective elements of a mall and are developed in an external and attractive setting.

Harmse (2012) explains that the design of lifestyle centres offer customers a unique shopping experience. These centres allow them to shop in an open-air setting in which stores can be accessed individually. Each store has its entrance and each storefront is in full view. Typical lifestyle centre tenants include coffee shops, bookstores, and high quality and speciality stores (Prinsloo 2010).

### **2.3.8 Value Centres**

"Value Centres", as they are known in South Africa, are equivalent to "Power Centres" in the USA (Harmse 2012). Value centres are generally about 10 000- 50 000 square metres in size (Prinsloo 2010). Characteristically, these centres are dominated by large, free-standing anchors, with limited availability of small speciality stores (ICSC 1999).

Such centres typically host a collection of "category killers" (Coleman 2006). "Category killers", as defined by the ICSC (1999), are those stores which offer a low-priced and large selection of a certain merchandise category. These centres, according to Prinsloo (2010), usually offer a limited range of goods. They are intended to complement and not to compete with other retail goods and services in a specific node.

### **2.3.9 Factory Outlet Centres**

The ICSC (1999) describes factory outlet centres as those generally located in rural areas and tourist locations. Coleman (2006) states that these centres also called “factory outlet centres” consist of groups of shops which are approximately 4 600 m<sup>2</sup> in size. A strip configuration is said to be the most common form of this type of centre (ICSC 1999).

According to Visser (2010), these centres are not anchored, but this niche is usually filled by one or more of the centre's larger tenants. Prinsloo (2010) indicates that these centres contain stores belonging to manufacturers and retailers, which offer their branded goods at discounted prices. Coleman (2006) states that store units at these centres can be occupied by manufacturers, retailers or department stores which use these outlets to sell their end of line merchandise at a discount.

## **2.4 TENANT MIX**

Dawson (1983) defines tenant mix as to how the different store type categories relate to each other in a shopping mall. Similarly, Greenspan (1987) defines a good tenant mix as a wide mix of stores that work well collectively and individually to improve overall centre performance. McCollum (1988) states that tenant mix refers to business establishments occupying shopping centre space together to form a (retail) group that produces maximum sales, rentals and services to the shopping centre.

The tenant mix of a shopping centre relates to the “mix” of various tenant stores that make up the centre. These tenants rent shopping centre space and conduct business offering a wide range of goods and services to customers. In return, the tenants generate revenue for the shopping centre owners. According to Bruwer (1997), tenant mix is not only imperative for a shopping centre landlord and its management but equally so for tenants and customers of the centre.

Garg & Steyn (2015) state that the tenant mix of a centre is important to the landlord, developer, tenants and consumers. A good tenant mix, according to Bruwer (1997), becomes a “win-win situation” for all parties involved.

Bean et al. (1988) are of the view that the ideal tenant mix has not been established. However, Greenspan (1987) suggests that this ideal tenant mix can be established through a thorough investigation of the market. Ndebele (2017) argues that obtaining the “ideal” tenant mix in a shopping centre is the main contributing factor to the success of the centre. This idea is supported by Greenspan (1987) and Kirkup & Rafiq (1994). The authors state that the rules which govern the ideal tenant mix are based on consumer preferences.

The South African Council of Shopping Centres (2019) states that tenant mix shifts are resulting in “improved trading and investment performance” and ensure long-term sustainability.

According to Garg & Steyn (2015), tenant mix literature can be divided into two parts. Firstly, there is a focus on the various ways in which to attract as many customers as possible to a centre and the competitive position of the centre. Secondly, literature is concerned with finding ways to tempt customers to visit all the parts of a shopping centre.

## **2.5 DETERMINING OPTIMAL TENANT MIX**

Bean *et al.* (1988) suggest that during the development of a new shopping centre, factors such as marketing demographics, costs of building and expected revenues should be evaluated. This is required to determine the viability of the venture. Bruwer (1997) states that the expected revenue depends directly on the tenants which lease retail space at the centre. He states that it is the tenants that generate the centre's income. As a result, obtaining the optimal tenant mix is vital for the success of the centre.

Dawson (1983) discusses the two major considerations to be made during the selection of tenants to obtain the most appropriate tenant mix:

- (i) The size, number and nature of tenants or stores in the shopping centre.
- (ii) The position of these stores in relation to each other and the centre's entrances.

### **2.5.1 Anchor Tenants**

A consideration to obtain the optimal tenant mix is a selection of anchor tenants. According to Bruwer (1997), anchor stores, which are supermarkets or department stores, significantly determine the centre character. They are responsible for providing the much-needed centre visibility to draw consumers.

Ndebele (2017) states that in South Africa anchor tenants, which are usually general grocers attract the masses to the centres. Similarly, Krugell (2010) states that it is vital to have anchor tenants at a shopping centre as they are responsible for attracting consumers.

Garg & Steyn (2015) suggest that the placement of two anchor tenants at opposite ends of a centre is considered to be optimal since this positioning draws foot traffic through the centre. Ndebele (2017) argues that securing the correct anchor tenants in a centre encourages smaller retailers to rent retail space in the shopping centre as they will benefit from footfall.

### **2.5.2 Centre configuration**

Another crucial aspect in determining the optimal tenant mix is the configuration of the centre concerning store location. The centre configuration often influences the direction of footfall through the centre. Stores should be laid out in such a manner that they encourage consumer spending while creating a convenient layout for consumers.



According to Kyriazis & Cloete (2018), foot traffic through a centre is guided by tenant location and their requirements. Authors such as Gruen (1973), Dawson (1983) and Maitland (1990) suggest the guidelines to be followed for optimal placement of tenants in a shopping centre:

- (vii) Anchor or magnet stores should be placed at opposite ends of the centre with space between them being lined with smaller retailers.
- (viii) Anchor tenants and centre entrances should be fairly far apart to encourage the flow of foot traffic through the centre.
- (ix) Formation of cul-de-sacs should be avoided since they disturb the flow of traffic through the centre.
- (x) Retailers offering services should be positioned in the side wings near entry/exit points at the centre.
- (xi) Retailers such as pet shops and dry cleaners should be placed a distance from food outlets and food outlets should be placed a distance from fashion retailers.
- (xii) In multi-storey centres, an even distribution of customers should be maintained with the use of escalators for ease of access and by distributing food outlets and eating facilities.

Regarding the optimal store location, Carter & Vandell (2005) discuss the following points:

- (i) the greatest foot traffic occurs in the centre of the shopping centre, which is usually the location of the food court. Foot traffic lessens with distance from the centre.
- (ii) Store sizes decrease from the centre of the shopping centre.
- (iii) There is a decrease in rent per square foot and profits from the centre of the shopping centre.

Garg & Steyn (2015) state that spending increases if consumers walk through the entire centre. The positioning of tenants in the centre and the amount of space their stores occupy are important factors in the tenant mix (Ndebele 2017). In contrast to most authors, Ndebele (2017) states that grouping similar anchor stores, for example, makes the stores more accessible and makes the shopping experience more convenient for customers to fulfil their shopping requirements.

### **2.5.3 Balanced Tenant Mix**

Ndebele (2017) states that attaining the correct tenant mix is not only important to increase footfall at a centre, but is also beneficial for tenants. Ojuok (2010) believes that having a good mix of tenants in a centre means including a variety of complementary or compatible retailers. Bruwer (1997) observes that shopping centres with a complementary tenant mix are the ones that tend to be successful.

Ndebele (2017) suggests that ideally, a centre should have complementary stores which feed off each other. According to Greenspan (2014), the stores relate to each other and work in conjunction to meet the requirements of the customer. This results in a more balanced tenant mix and meeting the needs of the shoppers more readily.

Ojuok (2010) explains that a balanced tenant mix is one in which the stores in a centre are complementary in terms of their product offerings and quality. She adds that the type and number of these stores should be related to the needs of the community within the trade area of the centre. This is supported by Berman and Evans (1995), who term this balance in tenant mix “balanced tenancy”.

### **2.5.4 Demographics**

The demographics of the consumer community should be evaluated to adequately cater to the needs of consumers in the vicinity of the shopping centre. Garg & Steyn (2015) state that the size and tenant mix of the centre is relative to the trade area for which it caters.

Ndebele (2017) states that there should be a correlation between the centre’s target market, consumer buying capacity, and the type of tenant stores in the centre. Krugell (2010) concurs that the tenants selected for the tenant mix of a shopping centre should meet the needs of the income group that will be frequenting the centre. Therefore, centre management must perform extensive retail research on its target market to ascertain the demographics, requirements, disposable income and size (Ndebele 2017).

Ojuok (2010) posits that with insights into how demographic data can be manipulated, centre developers are in a better position to negotiate leases and site locations with tenants. It is important to understand the needs of the trade area to provide retailers to serve it. Management needs to determine the spending capacity of consumers and the volume of people the area serves.

### 2.5.5 Retailer Dependency

Mejia & Eppli (1999) contend that large speciality retailers may have the capacity to increase the sales of smaller speciality retailers which offer similar products. Ndebele (2017) mentions that small retailers in a centre, offer consumers a wider selection of products. However, she states that since these retailers do not generally have the means for advertising or marketing on a large scale; they also rely on larger tenants at the centre to attract customers.

According to Yeates et al. (2001), when an anchor tenant closes in a shopping centre, it usually hurts the retailers nearby. However, in some instances, small retailers also provide support to larger retailers or anchors. Small retailers and speciality stores are the ones that provide variety in a shopping centre, thereby adding to its attractiveness, and also playing a role in drawing customers to the centre.

### 2.5.6 Niche Retailers

Ndebele (2017) describes “niche retailers” as small stores that offer variety in a shopping centre. She explains that their offerings include non-retail services, such as those offered by The Fun Company (a popular games room franchise in South Africa).

Dalgic (2006), in *Handbook of Niche Marketing*, states that a “niche” is a small market comprising customers with similar requirements. According to Simone Homan, interviewed by Bizcommunity (2019), consumers are perpetually seeking out different and more personalised experiences. Hence, the niche market is constantly growing in response to consumer demands.

Stanton *et al.* (1991) describe niche marketing as meeting customer needs through tailoring of good and services. Niche offerings provide a more holistic approach to the tenant mix in a shopping centre and contribute individually to the centre’s footfall (Ndebele 2017).

### 2.5.7 Shopper Entertainment & Experiences

Prinsloo (2018) mentions shopping no longer entails consumption alone. Consumers look for experiences during shopping. Ndebele (2017) supports this view that shopping centres are “no longer about simply shopping”. Simone Homan, in an interview with Bizcommunity (2019), explains consumers are increasingly seeking a shopping or retail experience. Jackson *et al.* (2011) discuss how retailers and management are aware that the number of visitors to a centre is driven by consumer satisfaction with the shopping centre experience.

Prinsloo (2018) states that this increasing demand for a shopping experience has seen the proportional increase in centres such as lifestyle centres, where shopping is more 'interactive'. In a SACSC Report (2019), it is stated that managers of larger shopping centres are placing greater emphasis on developing an "experiential shopping experience" to draw consumers. The report also states that this is expected to increase consumer dwell-time at the centres.

Consumers are seeking recreational and relaxing experiences (Ndebele 2017). Simone Homan, in her Bizcommunity (2019) interview, lists aesthetic attractions such as additional greenery, park-type areas, detailed architecture, an increase in natural light and even speciality outlets as drawcards for experiential shopping. It is reiterated by Prinsloo (2018) that to meet the expectations of the centre's target market and be profitable, shopping centres should provide consumers with good quality public space, ease of movement, meeting areas and entertainment. Such recreational facilities include eateries, coffee shops and cinemas and should be developed indoors and outdoors.

### **2.5.8 Catering to Different Age Groups**

Management needs to be cognisant of the age groups in its consumer base for a shopping centre to create the optimal tenant mix. This knowledge provides retailers with information about each age group. This will ensure better footfall at the centre if the needs of all consumers are considered.

Youth have significant spending power. Families with children often visit entertainment facilities. According to Garg & Steyn (2015), developers should consider including more family-orientated activities where there is a large young market.

### **2.5.9 Strengths & Limitations of Tenant Mix Analysis**

#### **a. Strengths**

- Knowledge of the determinants and characteristics of optimal tenant mix assist developers and management with assessing tenants and their placement within the centre, as well as with the development and improvement of the shopping centre configuration.
- Insights into factors which resulted in success in other shopping centres assist developers and management with concepts to be applied and tested in their centres.
- Insights into failures of other shopping centres, as well as failures resulting from applications of certain assumptions and models, aids management in abstaining from the same actions.
- Determining the optimal tenant mix for a shopping centre, especially before its construction, provides powerful information for use by centre management (Bruwer 1997).

#### **b. Limitations**

- A model that may work for one shopping centre may not work as well for another (Casazza *et al.* 1985).
- There is a great deal of trial and error involved in finding the most successful tenant mix (Yiu 2009).
- Although theories and models exist for the determination of optimal tenant mix in shopping centres, some remain merely theories due to the unrealistic assumptions.
- Each shopping centre has different demographics and challenges, for which a unique formula is to be developed for the successful operation of the individual centre (The Institute of Real Estate Management 1990).
- Much of the research is based on consumer behaviour, which is rapidly changing due to factors such as global marketing trends and the economic positions of consumers. Thus, a model may work for some time, and then require adaption due to evolving market demands.
- It may prove difficult to select one theory or model upon which to base a centre's tenant mix strategy, as the assumptions upon which they are based often disregard significant variables that ought to be considered. Such variables include location, the demographic profile of the consumer base, size, and consumer requirements (Yiu & Xu 2012).

## **2.6 TENANT MIX MODELS**

While research into seeking the ideal tenant mix model for shopping centres continues, Yiu (2009) believes that a "tested model for predicting the extent of the tenant mix" at shopping centres remains non-existent. These beliefs are echoed by the Institute of Real Estate Management (1990) who state that since tenant mix of shopping centres ought to be tailored to suit the requirements of individual centres, there is no actual (universal) optimal tenant mix for shopping centres. Yiu (2009) argues that tenant mix models and approaches have been formulated either through practical experience or via trial and error methods.

Skogster (2006) explains that depending on the perspective, retail location theory is based on various existing theories. According to Brown (1993), Bid Rent Theory (1926), The Principle of Minimum Differentiation (1929), Spatial Interaction Theory (1931) and Central Place Theory (1933) continue to attract a substantial amount of academic interest coupled with controversy. These main theories are the sources from which tenant mix models and concepts are derived.

Newing *et al.* (2015) postulate that models such as the Spatial Interaction Models have a high level of accuracy concerning revenue and consumer behaviour predictions. Contrastingly, however, Brown (1993) states that the theories and associated models have their foundations on "stated, invariably highly simplified, assumptions" and not on empirical observation, and therefore describe phenomena about retail activity and spatial patterns that "ought to occur, given the underlying assumptions". Burnaz & Topcu (2011) also suggest that despite the selection of tenant mix being a priority to shopping centre management, there is no best method or strategy.

Nonetheless, the theories will be discussed for their merits and contributions to ongoing research on spatial pattern configuration, the study of consumer behaviour and retail activity.

### **2.6.1 Land Value Theory (Bid Rent Theory)**

It is argued by Brown (1993), that although the Bid Rent Theory was the brainchild of Robert Haig, it has not commonly been acknowledged. Skogster (2006) mentions that Haig first established the theory in 1926 and that his work was then further developed and modified by Hotelling in 1929. Brown (1993) explains that the theory is also commonly dubbed "Urban Rent Theory".

The theory states that bid rent influences the spatial configuration of a city. The findings of Carter & Haloupek (2000) have established that space allocation in a shopping centre is decided by the stores' locations in terms of distance from the centre point of the shopping centre.

In an article by Carter (1999) it is stated that the size of a store, its total rent and its gross sales all differ according to the location of the store in the shopping centre. Consumers favour stores which they can easily access in a given arrangement and are said to generate more customer density with all other variables being held constant (Deb 2014).

This relates to the suggestion by Carter & Vandell (2005) that for the level of revenue generated by stores to remain constant, it follows that bid rent must decrease with increase in distance from the centre point of the shopping centre. This is because the bid rent theory implies that operating costs increase with distance from the centre point, due to a decrease in foot traffic resulting in a decrease in sales. Besides, anchor stores are best located at the ends or entrances of shopping centres, hence their distance from the centre point is greatest. It follows from the bid rent theory that anchors have the largest operating costs due to their sizes and distances from the centre point, hence their rent should be subsidised by management to 'internalise the externalities'.

Studies into customer traffic circulation by Sim & Way (1989) and Brown (1991) indicated that the bid rent theory could be used to determine the location characteristics of shopping centre stores. According to Carter & Vandell (2005) both these studies indicated that the application of a bid rent-type model would be appropriate in the case of regional and super-regional shopping centres. According to Deb (2014), observations made by Fischer & Yezer (1993) suggest that consumer density is greatest at a shopping centre's centre point and decreases with an increase in distance from the centre point. This is reinforced by Carter & Haloupek (2000) with their statement that foot traffic is highest at the centre of the shopping centre and tapers off moving outwards.

Carter & Vandell (2005) suggest that the afore mentioned observations of 1993, additionally indicate that a bid rent-type model is applied to determine store location in shopping centres.

As discussed by Deb (2014), concerning the application of the bid rent theory in a shopping centre, the actions of individual stores aim to seek a balance between maximising the stores'

revenue while maximising the revenue generated by the shopping centre itself. Following the bid rent theory, the landlord plays a vital role in internalising the externalities of retail agglomeration (Yiu & Xu 2012). Lowering of prices by stores results in the attraction of more consumers to the shopping centre, allowing stores to “exert externalities on each other” (Deb 2014).

According to Pashigian & Gould (1998), ‘internalising the externalities’ is described as the process whereby centre developers (or management) offer rent subsidies to anchors while charging premium rent prices to other tenants in a shopping centre.

### **2.6.2 Central Place Theory**

Walter Christaller’s Central Place Theory, which was originally developed by the geographer in 1933, and later modified by August Lösch in 1940, aims to ascertain the spatial arrangement, number and size of settlements (Jubair ca. 2020). It was later realised by Getis & Getis (1968) that the theory could be applied in a retail context, following their study of retail stores and their spatial affinities in CBDs of sample cities in the United States. Deb & Mitra (2017) posit that insights into the spatial configuration in a shopping centre setting have the potential to assist with design optimisation and with making decisions concerning tenant mix.

Anikeeff (1996) reiterates that the two primary concepts underlying the theory are the threshold (purchasing power) and range (trade area). According to Mutizwa-Mangiza (1986), the ‘threshold’ is defined as the minimum demand level required to enable the profitable operation of a business initiative, while ‘range’ is defined as the maximum distance consumers are prepared to travel to obtain goods from a supplier.

The most important limitation of central place theory is that it is only concerned with a certain range of economic activity, i.e. “the goods and services for which the demand is dispersed”, as well as the fact that it is distance sensitive (Parr 2017). Other limitations include the assumptions made during central place theory that consumers are identical, “adopting the economist’s ‘optimising man’”, and that consumer shopping trips are single-purpose trips (Skogster 2006).

### **2.6.3 Principle of Minimum Differentiation**

The behaviour of clustered firms offering homogeneous products is described by the ‘Principle of Minimum Differentiation’ (Eppli & Benjamin 1994). According to Yiu & Xu (2012), the principle predicts the clustering of retail stores offering similar products or services. Brown (1995) discusses that although it is lesser known than concepts such as central place theory, Hotelling’s (1929) Principle of Minimum Differentiation enables the study of a micro-scale retail location.

According to Brown (1993), this theory states that a specified number of stores which offer the same merchandise will do more business when they are situated adjacent to or close of each other than when they are far apart.

According to Varley & Rafiq (2014), early explanations of retail clustering were based on the principle of minimum differentiation. Skogster (2006) states that there have been numerous empirical studies performed in the retail setting, over a wide variety of retail trades, which support the hypothesis of the principle of minimum differentiation that retailers offering the same or similar products tend to agglomerate closely. The principle explains how a retailer can maximise their profits by locating or relocating nearer a competitor, which enables the retailer to acquire a greater market area (Varley & Rafiq 2014).

#### **2.6.4 Spatial Interaction Theory & Retail Gravitation**

Skogster (2006) states that Reilly developed his “Law of Retail Gravitation” on the principle of Newton’s Law of Gravity following empirical observations of shopper behaviour in an inter-urban context. Fotheringham (2001) explains that attempts were made to understand regularities in spatial flow patterns following the observation that people’s movement between cities was similar to the force of gravitational attraction exerted between two solid bodies on each other.

Applying Newton’s law to his observations of consumer behaviour, Reilly aimed to demonstrate that gravitational forces also affected their behaviour, which appeared to exhibit “law-like regularities” (Brown 1993).

Brown (1993) suggests that there is somewhat of an overlap between Spatial Interaction Theory and Central Place Theory (CPT). He states that their point of differentiation lies in the assumptions upon which they are based. It is assumed that consumers visit the centre offering the desired good or service which is nearest (and thus most convenient to visit), while spatial interaction theory assumes that consumers favour centre attractiveness over centre distance.

### **2.7 TENANT MIX IN LOW INCOME NEIGHBOURHOODS**

Shopping centres around the world have various layouts and tenant mixes, each catering for the requirements of their target markets. The shopping centre tenant mix provided in low-income neighbourhoods is of special significance, as it is these communities that have much lower budgets and are therefore more discerning with expenditure.

Thus, for shopping centres within these areas, it is prudent for developers and centre management to assess these situations more closely. This will allow developers and management to provide an optimal tenant mix to ensure the success of these centres. Presenting the wrong type of tenants at these centres, for example, those that fall outside the budget of the target market or an inadequate number of those that are suitable, will eventually lead to a loss in footfall and revenue for such centres. Typically, shoppers from the lower-income category tend to seek value-for-money and discount stores. Higher-order



retailers are not generally considered due to higher pricing of merchandise and services, and will therefore be unsuccessful in drawing these customers to their stores.

According to Westlake (1993), despite the retail revolution having afforded consumers the advantages of a wider variety of products, comfort and more affordable shopping, some consumers remain at a great disadvantage due to income and mobility limitations. He refers to these consumers as “disadvantaged consumers”.

Venema (2016) discusses that disadvantaged consumers typically “live remotely, without a car, in poor neighbourhoods”. Daniels (2003) states that as a result of low-income areas characteristically being located nearer the central business district, coupled with the fact that consumer mobility in these areas is lower than it is in the city, the hierarchy of retail centres is truncated.

Williams & Hubbard (2001) argue that disadvantaged consumers tend not to visit the more upmarket centres visited by advantaged consumers. This could be due to disadvantaged consumers being concerned about their images, and not ‘fitting in’ with the rest of the crowd at upmarket locations. Alternatively, as Daniels (2003) suggests, this could be due to the ability of such consumers to exert an element of choice in these situations being dependent on their income and mobility.

Developers and managers need to be aware of the types of retailers which are favoured by low-income or disadvantaged consumers. Typically, these consumers tend to favour discount stores (Newing *et al.* 2015). According to Chu & Yick (2004) a discount store is a general merchandise retail outlet, which offers a wide variety of goods but with a limited range, lower prices and limited service. The authors state that these stores target the low-income to middle-income shoppers who are more “economy-minded”. Store types that should not be included in the tenant mix of a low-income neighbourhood shopping centre are bulk retailers. It is suggested by Westlake (1993) and Martinez (2016) that low-income consumers find bulk-purchasing impractical, as they survive paycheque-to-paycheque, and have difficulty transporting bulk purchases. Resultantly, these retailers will not be frequented by this category of shoppers.

It was found by Caplovitz (1967), Alexis *et al.* (1969), and Kunreuther (1973) that consumers in the lower-income bracket display a greater tendency to restrict their purchases, of both groceries and non-food items, to retailers within their neighbourhoods. Goldman (1978) suggests that this may be because low-income consumers experience difficulty in travelling to shopping centres or stores which are a distance from their neighbourhoods. Lower-income consumers also tend not to frequent speciality stores, except possibly on rare occasions. Hodder & Lee (2015) posit that low-income consumers shop less frequently and are tied to lower-order stores, unlike high-income consumers. The latter, due to increased income and mobility, can by-pass lower-order shopping centres in search for a wider selection and improved quality of goods (Hodder & Lee 2015).

Centre managers and developers need to note that low-income shoppers, especially due to mobility restrictions, appreciate shopping centres where they can make one stop for several needs. It would be a drawback to these consumers if malls were to provide them with tenants

that also offer useful services, such as a post office. According to Adata (2010), it is noted that banking services are of significance in low-income areas. She states that these services are not only useful in attracting consumers to the centre, but also for area development.

It is also noted that consumers in low-income neighbourhoods have preferences for certain stores concerning grocery shopping. There are different store brands which are more favoured than others. This is usually due to these grocers or supermarkets offering large discounts and a range of goods from fresh produce to household cleaning supplies at a very competitive and affordable rate. It would be in developers' and management's best interests to investigate which grocers or supermarkets are preferred in these areas and to establish these retailers as their centres' anchor tenants.

## **2.8 LOCAL OPTIMAL TENANT MIX IN SOUTH AFRICA**

According to Stats SA (2011), there were estimated to be 50 million South Africans, with 67.2% living in urban areas (inclusive of townships and urban informal settlements) and 37.3% in rural areas. In 2011 (Stats SA), it was reported that 95% of the population, made up of black South Africans, lived in townships and informal settlements. The well-established and elite urban areas remain occupied by mostly whites, Indians and coloureds. This is useful knowledge since it allows centre developers to cater adequately for the markets in these areas, according to their preferred retailers and spending potential, thus influencing the centre tenant mix. It is claimed by Adata (2010) that townships and rural areas have seen a marked increase in retail development over the decade spanning 2000 to 2010. In an article by Binswanger-Mkhize & Im (2014), it is noted that an influx of migrants in search of labour, both locals and foreigners, have also affected the demographics in certain areas, especially informal settlements and less-developed townships. Adata (2010) adds that some of the benefits to residents associated with the township and rural developments include improved access to goods (and services) at lower prices and with more variety, the initiation of urban development and renewal, and the attraction of other useful services and amenities to the regions.

It is a widely accepted belief that tenant mix should be tailored to suit the needs of individual centres, depending on aspects such as the centre's target market, catchment area capacity, demographics of the surrounding population, income levels of the consumer base and consumer requirements. For a tenant mix to be considered ideal, the above factors must be accounted for. The consumers' needs must especially be reviewed as their satisfaction is the main concern of each centre's management. The tenant mix which is a success for one centre may not be as suitable for another. Likewise, the typical tenant mix adopted in one country may not be similar and successful in another. As a result, a profile of South African shopping centres in three of the main provinces has been constructed in this section to assist centre developers and management with assessing the layouts and tenant mixes of popular and successful centres throughout the country in different income categories. This information will be of use in association with the demographics of each region of the country and can be

adapted to other centres with similar demographics in a bid to discover an optimal tenant mix.

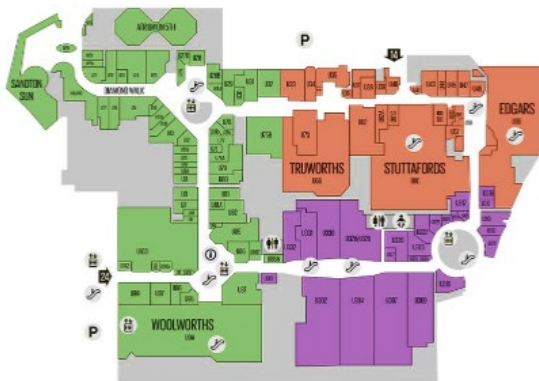
### 2.8.1 High-income areas

#### a. Sandton City Shopping Centre, Johannesburg, Gauteng

In the elite area of Sandton in Johannesburg lies the Sandton City shopping centre. This centre is home to several popular national stores as well as some of the more upmarket national stores. The lower level has large anchor tenants such as Checkers Hyper, Woolworths and Edgars. Some of these stores are quite large, extending into the upper-level floor as well. These include Woolworths and Edgars. On the upper level additionally, there are anchor stores such as Truworths. Stores on this scale such as Woolworths, Edgars and Truworths and cater to the more affluent market.

Many other retailers are operating at Sandton City, totalling 300 with the anchor tenants (Sandton City 2020). Some of the other retailers and service providers include Ster-Kinekor cinemas, Toy Kingdom and national store Ackermans. The centre also caters for luxury or branded shopping and is home to outlet stores for the Bulgari, Burberry, Armani, Hugo Boss, Cartier and Christian Dior luxury brands.

Sandton City upper level



Sandton City lower level



Sandton City (2020)

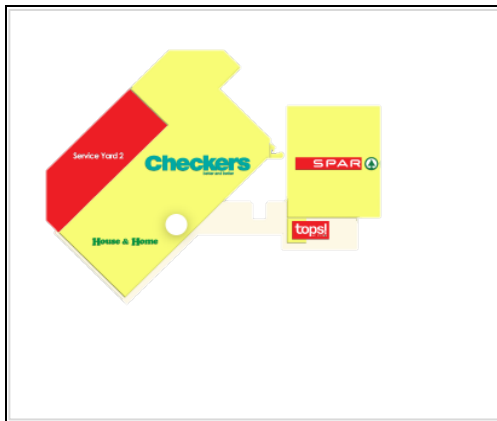
#### b. Gateway Theatre of Shopping, Umhlanga, KwaZulu Natal

The Gateway Theatre of Shopping is situated in the upmarket area of Umhlanga in KwaZulu Natal. The mall is massive, spanning 4 floors, i.e. a lower ground floor, ground floor, the first floor and the second floor. According to the website, there are over 400 retailers and 70 eateries (Gateway Theatre of Shopping 2020). Anchor tenants and large national stores at this mall include grocery stores such as Checkers and Spar, and those offering a more limited grocery selection such as Game and Woolworths (Food). Fashion brands include H&M, Zara,

Aca Joe, Nine West and Forever New for those customers with a larger budget. The mall also caters for the middle-income earners with stores such as Mr Price, Ackermans, Jet and Cotton On.

The mall is visited mainly by residents in the Umhlanga, Phoenix and Durban North areas. However, shoppers are drawn to the mall from as far as Durban South and Ballito. Hence the mall requires a wide tenant selection which is suitable for an array of budgets. Gateway Theatre of Shopping is extremely kid- and family-friendly, as it has entertainment options for everyone. The second floor contains the popular Mr Funtubbles games and kiddie's rides, action karting go-cart racing track, Ster-Kinekor cinemas and Hamley's toy store. The food court is also impressive and caters for a vast selection of tastes and budgets.

Gateway lower ground floor



Gateway ground floor

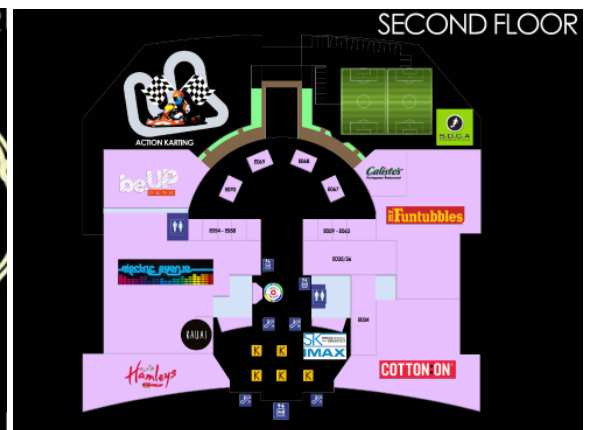


Gateway Theatre of Shopping (2020)

Gateway first floor



Gateway second floor

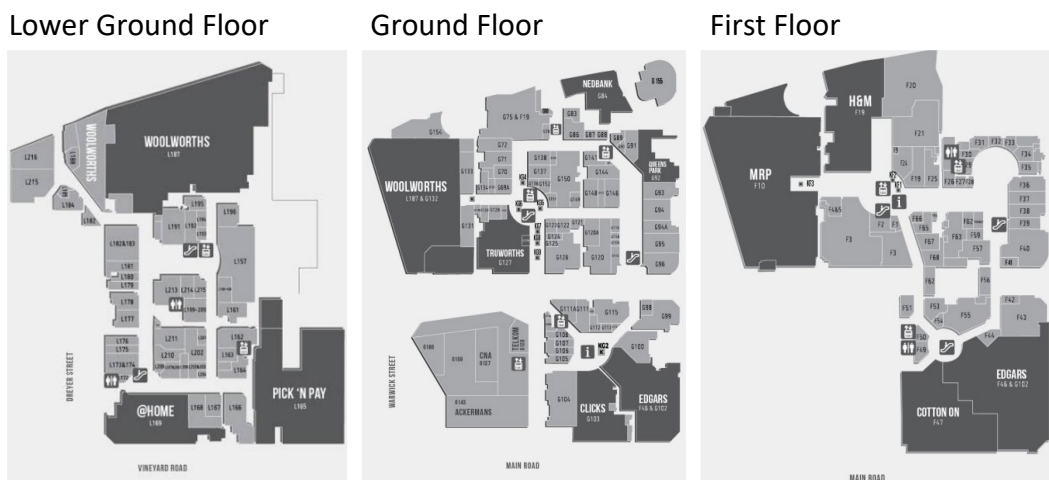


Gateway Theatre of Shopping 2020

**c. Cavendish Square, Claremont, Western Cape**

Claremont, home to Cavendish Square shopping centre, is one of the more upmarket areas in Cape Town. It comprises 3 floors of shopping space, including fashion, dining, entertainment and banking services. The anchor stores in this mall are Woolworths, @Home and Pick ‘n Pay on the lower ground floor. Woolworths, Truworths, Edgars and Clicks are anchor tenants on the ground floor. And Mr Price, H&M, Cotton On and Edgars are anchors on the first floor.

Stores such as Woolworths and Edgars span two floors each, catering for the needs of the more affluent shoppers that frequent this centre. According to the website, the centre hosts 180 stores, 8 cinemas, and is home to numerous restaurants and 5 forex banks (Cavendish Square 2020). Besides, it is claimed that footfall at this centre reaches approximately 1.2 million shoppers each month. Other retailers at the mall include Ackermans, 3@1 (offering printing and courier services, etc.), American Swiss Jewellers, Elna for dressmaking and haberdashery requirements, The Body Shop and YDE. These stores all cater for middle-income to high-income earners.



Cavendish Square 2020

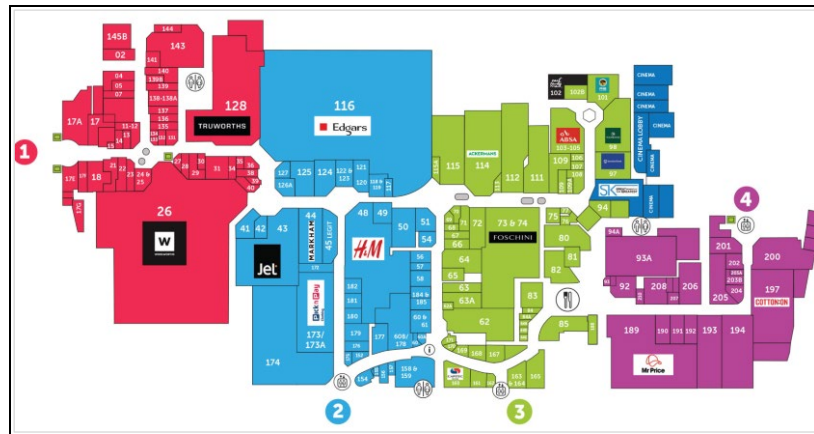
**2.8.2 Middle-Income Areas**

**a. East Rand Mall, Boksburg, Gauteng**

The East Rand Mall, as the name suggests, is situated in Boksburg in the East Rand area of Gauteng. The mall serves a very large target market, drawing customers from the vast Boksburg area, Benoni and even nearby townships. As a result, the mall caters for a wide variety of budgets, and mainly for the middle-income earners. Anchor stores at the mall include Woolworths, Edgars, Mr Price and Cotton On. The mall is also home to Ster-Kinekor cinemas, contains a banking hall, and a food court with some dining options. East Rand Mall is also home to national stores such as Ackermans, Jet and Clicks. Stores catering for a larger budget include Foschini, Truworths, H&M, Aldo, Swarovski and a host of speciality and

jewellery stores. The mall is also joined directly to East Point Centre, which is much smaller in size and home to stores such as Game, Pick 'n Pay, Decathlon (sporting gear), Pep and Dis-Chem.

East Rand Mall



East Rand Mall 2020

**b. The Pavilion, Westville, KwaZulu Natal**

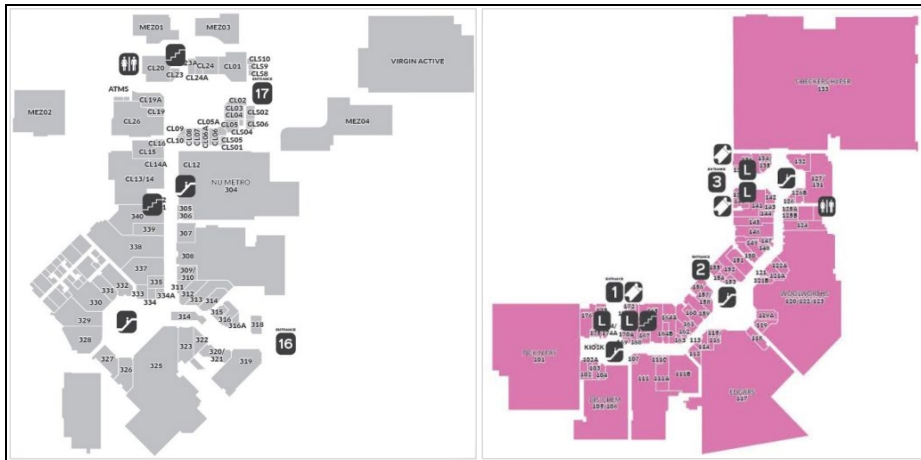
In Westville, KwaZulu Natal, The Pavilion shopping centre has been established. The mall has been expanded and revamped over the years and is one of Durban's favourite malls. It consists of 4 levels, viz. the cinema level, lower level, upper level and roof level. This mall serves customers from the Westville and Durban areas mainly and is a popular destination for students from surrounding universities and colleges. As a result, the mall caters for a wide variety of shoppers. The Pavilion, opened in 1993, houses over 255 national and international retailers, 40 food outlets and restaurants, as well as 12 Nu Metro cinemas (including a 4DX theatre) (The Pavilion 2020).

On the cinema level, there is a large food court with a good variety of food and beverage outlets and central seating, a Virgin Active gym, as well as the Nu Metro cinemas. On the lower level, anchor stores such as Checkers Hyper, Woolworths, Edgars and Pick 'n Pay can be found. Other stores on this level include Dis-Chem, smaller retailers and several jewellery stores. The Game, Truworths, Edgars and Woolworths are the anchors on the upper level. Lastly, the roof level contains a few smaller retailers, a large Mr Price Home store, and Sportsman's Warehouse. The mall is also home to a banking hall and forex banks. Stores catering for a larger budget include Kurt Geiger, Sissy Boy, Forever New, Keedo International, Europa Art Shoes and Aldo.



The Pavilion - Cinema level

Lower level



The Pavilion 2020

**c. Bayside Mall, Tableview, Western Cape**

Bayside Mall is situated in Table View, Western Cape, and caters to middle-income earners mostly. It is made up of only a single level. The centre contains 8 Ster-Kinekor cinemas (Bayside Centre 2020), a food court and many other retailers offering everything from fashion to healthcare products. Anchor tenants at this centre include Game, Checkers, Woolworths and Dis-chem. Other popular national stores included at the centre are Mr Price, Jet, Foschini, Edgars and Clicks. This centre does not contain high-end stores and international outfitters, catering adequately for its target market. There are several banks and forex banking services at this mall, as well as a travel agency.

Bayside Mall



Bayside Centre 2020

### 2.8.3 Low-Income or Township Areas

#### a. Jabulani Mall, Soweto, Gauteng

In the heart of Soweto lies Jabulani Mall. This area is a township area and is one of South Africa's most highly populated townships. Soweto is also home to largely low-income earners, having a population from previously disadvantaged backgrounds. This mall is home to 109 stores and hosts the only Game store in Soweto, a major drawcard for the mall (Jabulani Mall 2020). This differentiating feature also assists the mall in winning market share in the area, since there are competing malls in Soweto.

The anchor stores in this mall are Game, Woolworths, Edgars and Shoprite. At this mall, Shoprite is a more trusted brand than other grocers such as Checkers or Pick 'n Pay as it has always been more popular amongst the black community, which is essentially the target market. Other stores in the mall include Ackermans, Jet, Foschini, Mr Price, Russels and Markham.

Jabulani Mall



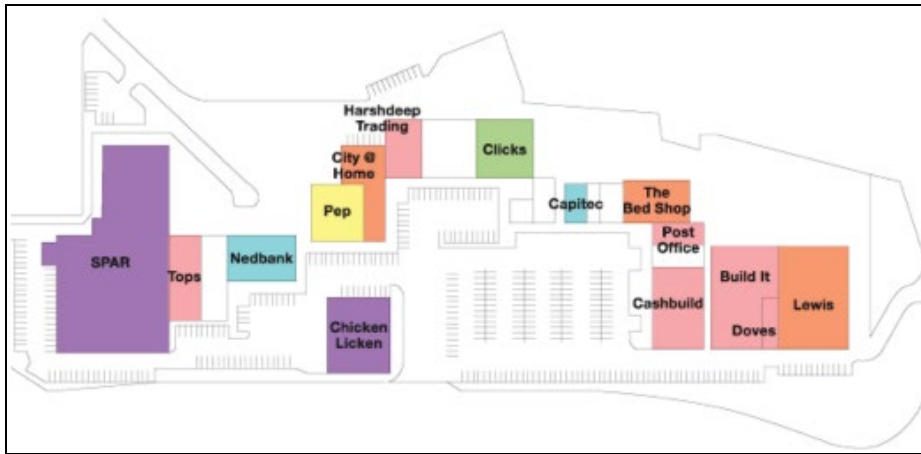
Jabulani Mall 2020

#### b. KwaMashu Shopping Centre, KwaMashu, KwaZulu Natal

The KwaMashu Shopping Centre is situated in KwaMashu in KwaZulu Natal. This is a black township area which is home to hundreds of thousands of people from previously disadvantaged backgrounds. Thus, this centre serves a massive catchment area. The main anchor store at this centre is Spar, and there is a total of 19 retailers including Nedbank and Capitec bank, the Post Office and Dove's funerals. Other retailers trading at the centre are Build It, Lewis and Cashbuild, which are more popular amongst the lower-income communities who are the target market of the centre. Chicken Licken, present at this centre, is also quite popular at township centres for its highly affordable and value-for-money meals.



KwaMashu Shopping Centre

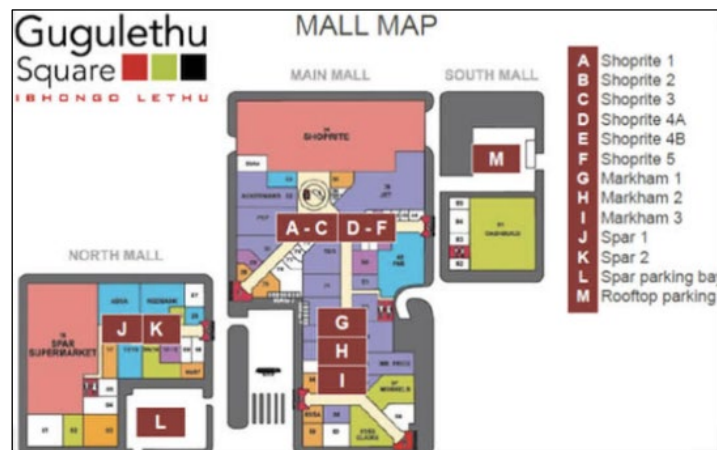


KwaMashu Shopping Centre 2020

**c. Gugulethu Square, Gugulethu, Western Cape**

The Gugulethu Square shopping centre was established in 2009 and initiated the development of the Gugulethu central business district (Gugulethu Square 2020). The centre comprises 3 separate malls, i.e. the North Mall, Main Mall and South Mall. The anchor tenants at the mall are Spar (North Mall), Shoprite (Main Mall), and Cashbuild (South Mall). Shoprite features yet again at a township shopping centre, as it is preferred over Checkers and Pick ‘n Pay grocery stores since it is believed to be more affordable. Other stores in the mall include Ackermans, Pep, Bradlow’s furniture, some medical services provided from doctors’ practices, and many non-national stores such as Stylize and Take Note clothing, a privately-owned butchery and Mehana Fashions outfitters. There are also other services offered at the mall, which generally are not found in middle-income and high-income malls, such as tailoring services.

Gugulethu Square



Gugulethu Square 2020

From the profile created using the above shopping centres, several generalisations can be made about the tenant mixes across centres catering for the various income categories. It can be deduced that centres in the more elite or upmarket areas host luxury brand stores, hobby and recreational stores, and typically contain more jewellery and speciality stores. Stores such as Woolworths and Edgars are also much larger at these malls, often spanning two stories. At middle-income centres, Checkers and Pick 'n Pay tend to be preferred grocers, while stores such as Edgars, Mr Price, Ackermans, Clicks and Dis-Chem tend to feature. There are typically fewer speciality and luxury brand stores, and sometimes service stores. Centres catering to the lower-income communities typically are home to grocers such as Shoprite, national fashion stores such as Jet, and stores offering services such as funeral services and tailoring. They are also home to less-popular national stores such as Cashbuild and Build It as well as many non-national stores, and popular fast food outlets such as Chicken Licken tend to make an appearance.

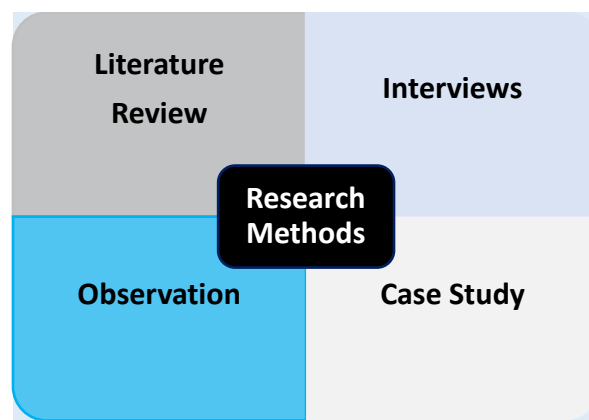
## CHAPTER THREE: RESEARCH DESIGN AND METHODS

### 3.1 RESEARCH DESIGN

The purpose of the research study is to develop an appropriate method or toolkit that can be used by centre management for determining an optimal tenant mix in shopping centres. It is intended to give this target group a better understanding and “handle” of these issues.

The research design is rooted in the ethnographic tradition which is qualitative. A mixed-method approach in a single research paradigm is adopted.

The research design for the study is illustrated as follows:



### 3.2 RESEARCH METHODS

The study employs a literature review, observation, interviews and a case study. By employing a combination of research methods, the data is triangulated and findings corroborated, thus increasing the validity of the results.

#### 3.2.1 Literature Review

A comprehensive literature review will be conducted for this study. Research methods used by market research firms in the retail industry are examined. These range from sophisticated methods to more simple, cost-effective methods that are employed by small and medium-sized shopping malls.

#### 3.2.2 Interviews

Interviews are conducted with centre managers or others that are involved directly with tenant mix functions.

The interviews are conducted using a semi-structured interview schedule. The schedule encompasses broad probing questions covering key themes in the study. All questions are open-ended. This grants the interviewees the flexibility to deviate from the interview questions and discuss issues not identified by the researcher initially as long as the key themes are covered by the end of the interview.

A total of ten experts participated in interviews. Usually, with this type of interview, there is a tendency to reach saturation of information by about ten interviews. Centre managers were contacted by email and telephone to secure an interview.

### **3.2.3 Observation**

Direct observation of the layout and tenant mix of the shopping centres was conducted. Observation enables the researchers to see the actual layout and how this aligns and deviates from tenant mix methods.

The objective is to determine the layouts with the designated centre managers to determine their rationale.

### **3.2.4 Case Study**

Case studies of selected shopping centres are described.

## **3.3 SAMPLING**

Purposive sampling is used to select centre managers for interviews. In purposive sampling, interviewees are selected on pre-determined criteria relevant to the research issues under consideration.

For this study, centre managers were chosen based on their expert knowledge and experience of their retailing, particularly in a shopping mall environment.

Purposive sample sizes are often determined based on theoretical saturation – the point in data collection when new data no longer bring additional insights to the research questions (Pope & May 2000). Hence, we estimated a sample size of 8 participants.

## **3.4 RELIABILITY AND VALIDITY**

Unlike quantitative research, wherein statistical methods for establishing validity and reliability of research findings are applied, qualitative research incorporates methodological strategies in the research design to ensure the “trustworthiness” of the findings (Noble & Smith 2015).

Such strategies include acknowledging personal biases; meticulous record-keeping; seeking out similarities and differences across accounts to ensure different perspectives are represented; rich and thick verbatim descriptions of participants' accounts to support findings; clarity in terms of thought processes during data analysis and subsequent interpretations; data triangulation, whereby different methods and perspectives help produce a more comprehensive set of findings (Noble & Smith 2015).

In this context, the study has validity and reliability in that there is integrity in the application of the research methods employed, and the precision in which the findings accurately reflect the data, as well as the consistency in the use of the analytical procedures, namely, the constant comparative method.

### **3.5 DATA ANALYSIS**

The raw data (information) from interviewees were separately classified. The transcripts of the interview data were studied and categorised for analysis. All interviews were processed with ATLAS.ti version WIN 5.0 (Scientific Software Development). The reading of the interview transcripts was followed by assigning codes in ATLAS.ti to specific words, used by the interviewees or sections of text.

A coding process was used to reduce the size of the data and categorise it into significant themes for later analysis. This process involved compartmentalising contradictions, merging the same or similar views and identifying trends and patterns in the data. Through constant comparative analysis, the researcher builds up categories and also breaks them down again into smaller units of meaning. In this way, the richness and complexity of the data can be recognised. The objective of data analysis is to link and integrate categories in such a way that all instances of variation are captured inductively.

The software enabled researchers to study the data held in each code and show coding as several words or number of times a section of a primary document in ATLAS.ti had been assigned to a particular code.

### **3.6 CONCLUSION**

A mixed-method approach is employed by the researcher to triangulate the information from the literature review, interviews, observation and case study. This enables the researcher to acquire a holistic understanding of issues under study.

The interviewees indicated during interviews that they are reluctant to publish their names or willing to allow the researcher to publish the names of the shopping centres in the report or due to company policy, divulging trade secrets and the competitiveness of the retail environment. Hence, their confidentiality is guaranteed by the researcher.

## CHAPTER FOUR: INTERVIEW AND CASE STUDY

### 4.1 INTERVIEW AND CASE STUDY

Interviews were conducted with ten experts involved with shopping centres in various capacities. These experts indicated that they prefer to remain anonymous since the shopping centre and commercial property market are highly competitive. These interviews were supplemented with appropriate case studies and literature reviews.

Interviewee	Organisation
Portfolio Manager	An investment firm in the retail property industry
Operations Manager	Firm managing several shopping centres in Gauteng
Tenant Coordinator	Construction project management firm
Centre Manager	Shopping centre in Sandton
Architect	A firm that works in the commercial property industry
Market Researcher	A firm that researches shopping centre owners
CEO	Firm managing a retail property fund
Director	The developer of shopping malls
Interior Designer	A firm that works with retail outlets and shopping centres

The interviews were conducted using a semi-structured interview schedule. It lasted between 30 to 45 minutes per interview. The interviews were qualitative with open-ended questions to enable the interviewees to express their views freely. It allowed issues to be discussed in detail and provided the interviewer with the opportunity to probe and clarify issues. Leading questions were asked and, depending on the direction of the discourse, it was followed by probe questions.

We define an expert as possessing the following:

NO	ATTRIBUTES
1	Expert knowledge and experience of their sector
2	Strong understanding of trends in their sector
3	Senior position in their company
4	Generally known by their peers in their sector
5	Sits on industry bodies

Informants were candid and often the information received had depth.

## QUESTION ONE

### What factors are considered to identify a location for a new shopping centre?

Planning for construction of a shopping mall in the crowded cities with different levels of income is a demanding and complicated task, hence there is no consistent method for this kind of decision-making problems. Developers should engage in robust and rigorous research when deciding on a shopping centre new build, given the magnitude of the investment. This is difficult, especially in South Africa, which is saturated with shopping centres.

When the question was posed, interviewees responded as follows:

*Interviewee 6 remarked:*

*“Proper planning and market research before building a new shopping centre are necessary to avoid big mistakes over the long-term and leave shareholders in agony. We have seen miscalculations for example in the Westwood Shopping Centre in Durban and the Morningside Shopping Mall in Johannesburg”.*

*Interviewee 4 exclaimed:*

*“Land: Location, Location, Location is everything! Make sure the land is easily accessible, ideally on the main road. Is not too far away from the nearby city. Has enough own parking facility. Does not create traffic congestion”.*

*Interviewee 2 mentioned:*

*“The prime locations in the cities are saturated [with shopping centres], so we got to be very careful when selecting new locations”.*

*Interviewee 6 stated:*

*“In the past, we focused on the population density of the catchment area within 10 km. It was a broad-brush approach. With the expansion of the cities, shopping centres are being decentralised. Market research has to drill down to micro-characteristics of residential and commercial districts in the catchment area. We look at population, income levels, gender, age, property values, etc. before making decisions.”*

*Interviewee 5 said:*

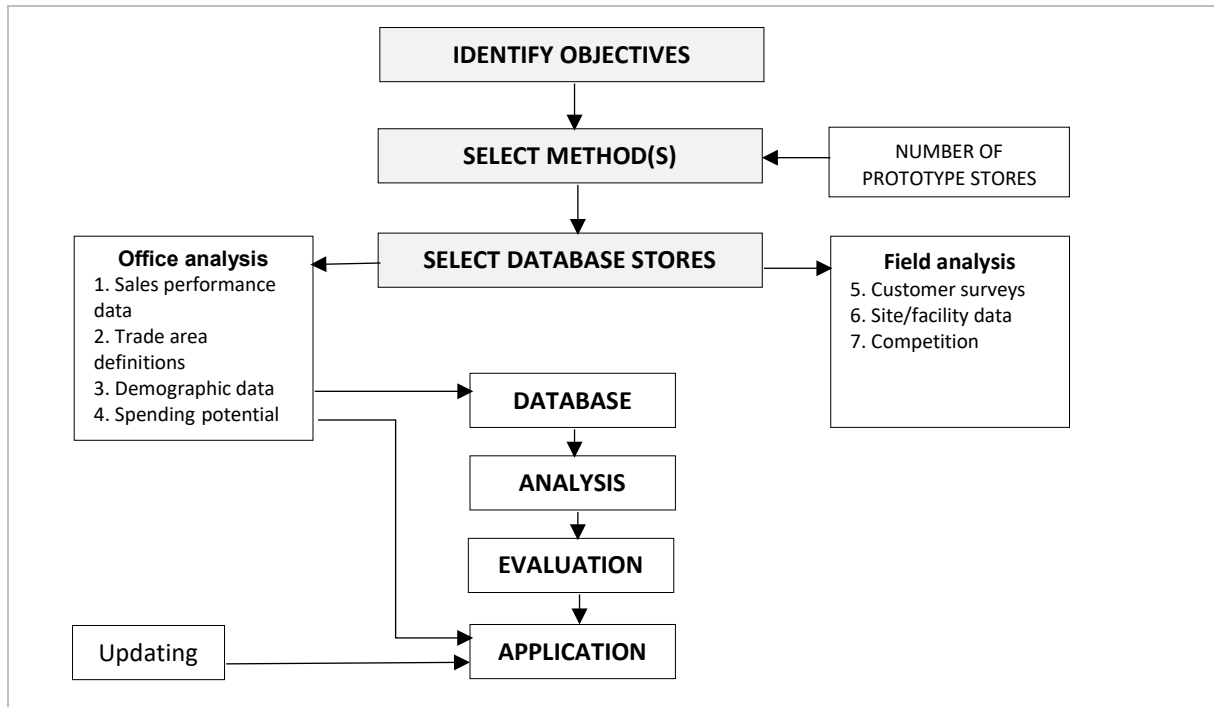
*“ I am aware of some research consultancies that use econometric models to work out a location. These are very complicated. Sometimes, I wonder if the consultant knows the model. They work with a formula. But I am unsure whether these models are effective”.*

*Interviewee 5 later said:*

*“I do not have the time to understand the inner workings of forecasting models. I want to know what are the findings so that I can question them and play the devil's advocate”.*

According to Rogers (2005), an effective location research method is much more than just databases and techniques. Specifically, it requires sound research design and plans at the outset. This important point is often forgotten by data firms and consultancies which are frequently over-eager to promote their specific databases or techniques. Therefore, a need exists to organise how location research techniques should be used.

Rogers (2005) developed a research location methodology for identifying shopping centre locations:



The process involves (Roger, 2005):

- Identify the objectives of the project.
- Develop a location research method(s).
- Determine the number of prototype stores envisaged.
- Forecast office (store) analysis forecasts and field analysis.
- Analyse, evaluate and apply data.
- Consider field analysis findings.
- Make the final decision.

In an earlier study by Roger & Davies (1984), the site was pre-chosen, consequently requiring the research to be retrogressive, thus determining whether the specific site was acceptable, rather than assessing which of several sites was most suitable.

A new trend in the property market is mix-use developments which attract tenants who desire the work-play-live environment. "In an era where time is scarce and crime is a concern,



the mix-use concept has a lot to offer, not least because it keeps evolving,” says Nicholas Stopforth, Managing Director of Amdec Property Developments (SASCE 2020).

The Melrose Arch in Johannesburg has a large component of commercial office property on-site, the development includes bars, restaurants and coffee shops, more than 100 retailers, a Virgin Active gym, the high-end Daytona automotive dealership and prestigious apartment blocks.

“Residents and working professionals have everything they need on their doorstep, without having to get into their cars and worry about safety.” Stopforth (SASCE 2020)

Across the world, property developers are faced with the challenge of creating space for urban living. As more people desire central living with amenities and minimal travel time, mixed-used precincts provide a solution.

### **The Art of Mixed-Use Development**

*A leading property developer and investor Atterbury is one of South Africa’s most diversified property companies with portfolios in Cyprus, Romania, Serbia, Mauritius and South Africa.*

*Atterbury’s sites are chosen carefully through research that not only considers the macro-economy of different countries but also focuses on micro-locations in potential markets. Importantly, its research-driven model enables Atterbury to respond to SA’s immense need for urban regeneration and mixed-used property development to create amity-rich environments where people work, live and shop.*

*Atterbury has an astute approach that is behind the current greenfield mixed-use developments in new growth nodes such as the Castle Gate precinct in Pretoria and the Richmond Park in Cape Town. With an exceptional location in Pretoria, adjacent to the N1 and Solomon Mahlangu Drive, Castle Gate is a large-scale development that will ultimately include 120 000m<sup>2</sup> of office space, 40 000 m<sup>2</sup> of medical facilities and 1 100 residential units.*

*Construction of a 23 000 m<sup>2</sup> Castle Gate lifestyle centre and it will be home to the latest concept stores for Woolworths, Checkers, Dis-Chem and Builders Warehouse. Its dining options include Rocomamas, Spur, Ocean Basket, Nando’s and Burger King. Castle Gate Lifestyle Centre will include a Planet Fitness gym with a swimming pool and an outdoor walking and running through the precinct’s nature area.*

*Major roads and infrastructure upgrades, including a new highway bridge across the N1 are a significant element of the Castle Gate precinct project.*

*Source: (SACSC 2029)*

In an article by Mohamad *et al.* (2015), it is stated that “location selection is a problem faced by all companies” and that (as a result) location is a land characteristic of paramount importance in economic analysis. Cheng, Heng and Yu (2007) mention that developers should take advantage of information technology and geographic information systems (GIS) that enable the handling of both spatial and non-spatial data for constructing thematic maps depicting a variety of demographic information relating to population, housing, and economic

activities. Selection of a retail site is a challenge for various businesses, hence, GIS are currently used to provide advanced analysis tools and complete data packages in order for developers to analyse retail and demographic information (Mohamad *et al.* 2015).

The GIS has utility for shopping mall location selection, which is one of the core business activities of developers for long-term capital investment. A GIS-based system uses electronic mapping technology in producing interactive multi-layer maps so that queries are set to find optimal solutions for problems. It combines spatial and non-spatial data to construct visualised information that can be easily analysed by decision makers and that cannot be achieved in table or list forms. Spatial analysis is one of the main focus areas in the application of GIS (Mohamad *et al.* 2015).

The researchers demonstrated finding solutions for four location problems: minimum distance, maximum demands coverage, maximum incomes coverage, and optimal centre (Cheng, Heng & Yu 2007).

With respect to the number and format diversity of shopping centres, their presence across the country and their market share, shopping centres have led to the transformation of the urban landscape (Damian 2008). According to Garg & Steyn (2015) the success of shopping centres, uncovered during their research, is dependent on a range of factors including location and accessibility, the size of the catchment area and its quality, tenant mix of the centre, provision for car parking, the internal arrangement of stores and facilities, and convenience. Since location, accessibility and convenience of a shopping centre are interrelated and are themes which emerge often regarding the success of shopping centres, developers are required to give much thought to these aspects when planning shopping centres and during their construction. A centre which is not located nearby main access routes, difficult to enter and exit, and which does not have sufficient parking facilities due to lack of space, for instance, will automatically become inconvenient to shoppers and result in unpopularity of the centre.

It is of key importance that any challenges which may affect the structure of the shopping centre or mall are identified and evaluated, as developers are required to establish suitable locations for the centres or malls such that a strong consumer base is ensured for retailers (Mohamad *et al.* 2015). This includes considering the geography of the site itself, and its suitability for construction. For example, in the United Arab Emirates, shopping malls were required to be structured in such a way so as to preserve natural reserves such as deserts (Mohamad *et al.* 2015). In summary, the major factors for considering the geographic location and site of a new shopping centre are demography, income levels, distance from the site, population density, cultural and social aspects (Cheng, Heng and Yu 2007). Furthermore, the site geography requires consideration for suitability for construction (Mohamad *et al.* 2015).

Interviewee 7 stated:

*"We have a team that does the preliminary research on a target market, population characteristics, income distribution, other shopping centres, anchors in an area, and more. We then use a market research company to work with our team to work out a method and do a feasibility study".*

When Interviewee 10 was asked of his views of econometric models for predicting shopping centre location, he responded as follows:

*"We do use market research consultancies before embarking on new development. They use quantitative predictive models for site location. But we supplement these with extensive qualitative field research. We believe that predictive models are very useful, but we will not bet on it alone. Listening to potential consumers is vital".*

Interviewee 1 said:

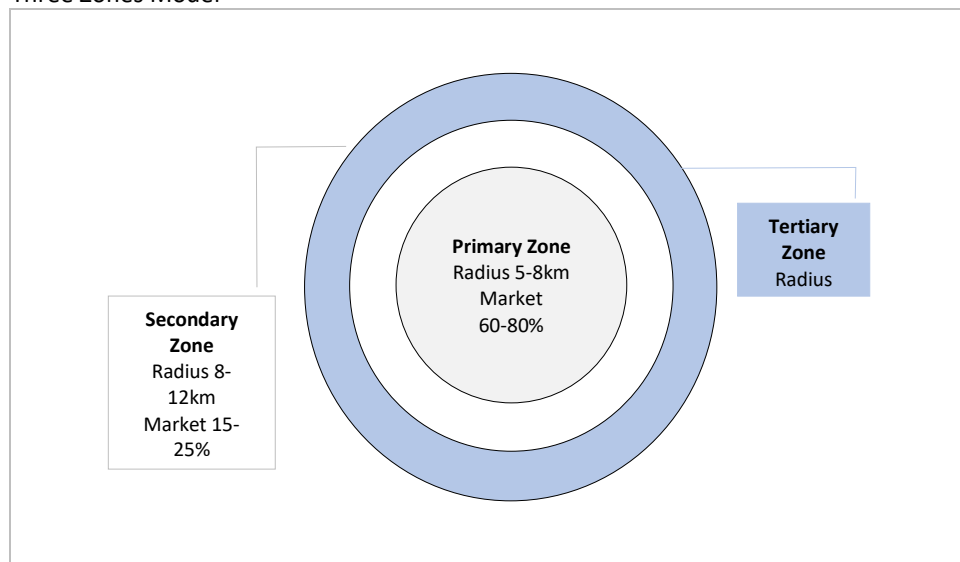
*"We bring in experts to help us identify a new development. We don't have time to conduct research. Sometimes we bring in a second research firm to give a second opinion".*

Interviewee 9 says:

*"Some research and some intuition are the best method for choosing a shopping centre location".*

Berman & Evans (1995) emphasises trade area analysis, which involves estimating the trade area to be served by the new shopping centre. He then establishes three sub-zones: primary, secondary and tertiary within the trade area as follows:

Three Zones Model



Berman & Evans (1995)

Berman and Evans (1995, p. 272) define these areas as follows:

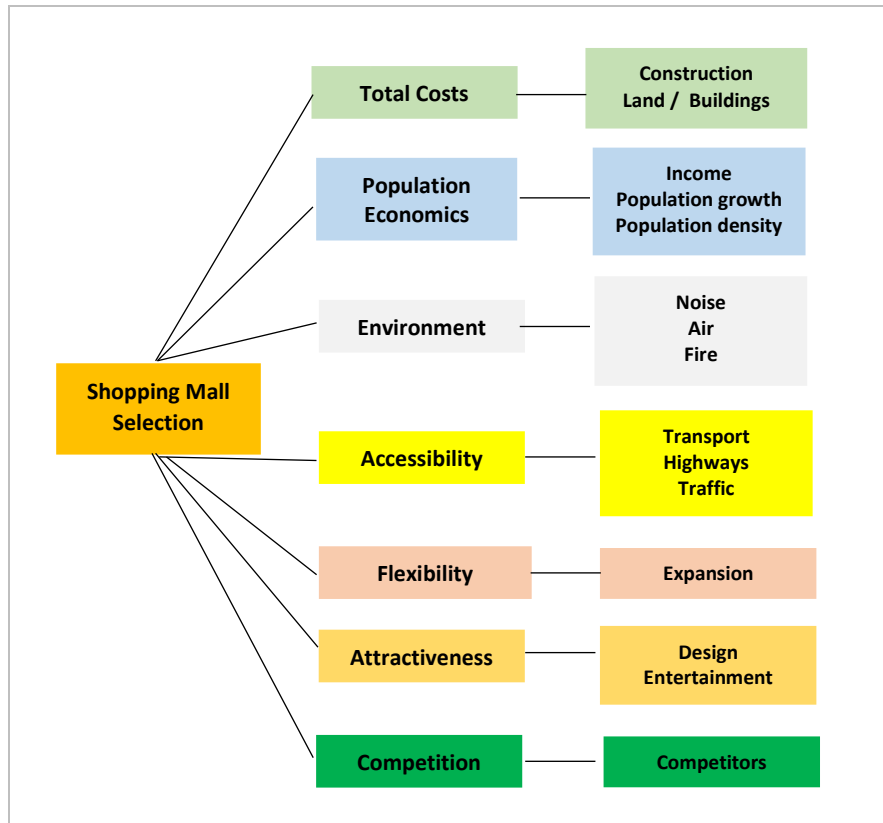
*Primary zone.* The geographical area from which the centre will derive its greatest share of recurring sales. It is the area closest to the centre and the zone generally extends five to eight kilometres from the site and is usually no more than a ten-minute drive by car at the furthest point. It encompasses 60-80 per cent of a centre's customers. There is significantly little or no overlap with other centres' trade areas.

*Secondary zone.* Contains an additional 15-25 per cent of the centre's customers. It is located outside the primary area, and customers are more widely dispersed. Usually it extends eight to 12 kilometres and is no more than 15 or 20 minutes by car to the site. More than one secondary zone for a centre can exist.

*Tertiary zone.* The outermost ring or fringe trade area which includes all the remaining customers who are most widely dispersed. It extends 25 kilometres in major metropolitan markets and much further in smaller markets.

Amiri & Kazemi (2016) mention that to select a shopping centre site you got to look at several locations. They used Tehran (Iran) to apply their methodology. They identified Vanak Square (A1 - a populated region in the north-western of Tehran), Emam Hosein Square (A2 - a populated region in the south-eastern of Tehran), Marzdaran Boulevard (A3 - a thinly populated region in the west of Tehran), and Jomhori Square (A4 - a populated region in the south-western of Tehran) as location alternatives in this research. In brief, they are named as A1, A2, A3, and A4 in the same order. Selecting the most well-suited location depends on measurable attributes. The alternative that performs best with respect to all attributes is chosen for investment.

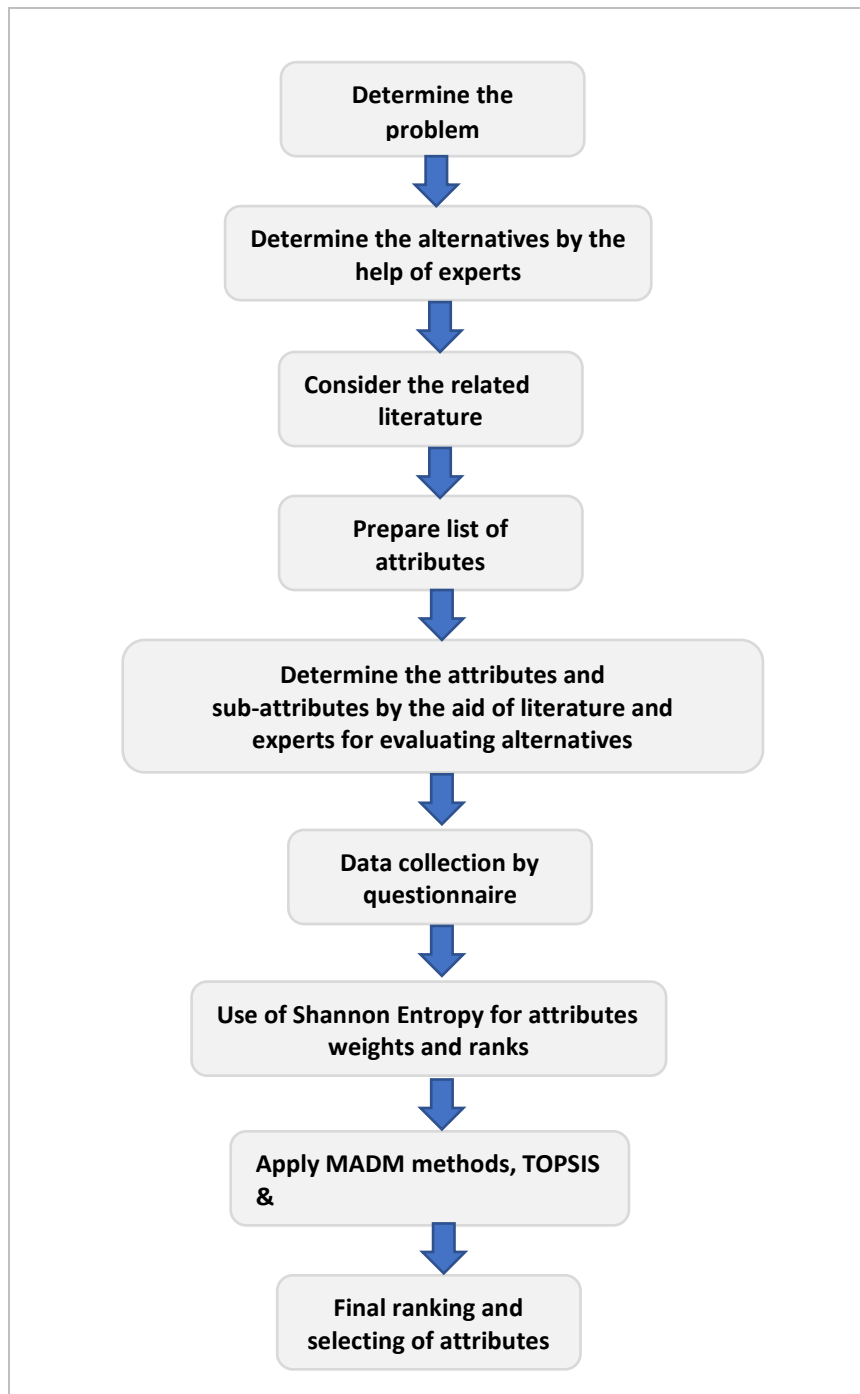
Based on the reviewed papers, numbers of attributes have been chosen. Next, experts discussed how to establish the decision-making problem. The attributes and sub-attributes are shown below.



Source: Amiri & Kazemi 2016

For data collection a detailed questionnaire related to data, regarding the sub-attributes for the location selection model was prepared. The experts have a crucial role in evaluation and calculating weights. Each expert ranked the alternatives based on the degree of each sub-attribute from very low to very high, which are linguistic assessment for evaluating the alternatives. Next, each expert ranked all the sub-attributes from the first to the last based on their importance with the use of their own implicit knowledge, information, and experiences. After determining the weight of each sub-attribute a MADM method is applied (TOPSIS & VIKOR) to rank alternatives and to propose a solution to decision makers (Amiri & Kazemi 2016).

The steps are shown below:



Source: Amiri & Kazemi 2016

It is the first responsibility of investors to apply their capital in the right places at right times and earn benefits. However, where to invest and how to invest is a venturesome and complicated problem. Multi attributes decision making has been widely used in selecting the well-suited alternative with respect to multiple and usually conflicting attributes.

There are several methods that can be employed for determining a shopping centre site location. These range from highly sophisticated econometric models with built-in algorithms, GIS systems, to traditional research methods and hunch and intuition. There are also hybrid methods that are used to identify the best location.

## QUESTION 2

### How do you evaluate and select tenants for a shopping centre?

The need to evaluate and select tenants based on a tenant mix plan is vital to ensure the success of the shopping centre. Bean (1988) advises that early in the development process, accommodation for the large department store (anchor) are negotiated and arranged. Once the department stores are situated, and a general mall floorplan is known, the developer must decide how to lease the many smaller stores which complete the mall. The types, sizes and locations of these smaller tenants play an important role in determining the financial success of the centre.

Bruwer (1997) states that in any centre, the availability of the anchor tenant(s) is the necessary starting point of the renting operation. The anchor tenant is the backbone of the centre's development and should be signed up as early as possible in the planning stage.

*Interviewee 8 said:*

*"My priority is to secure the anchor tenant. With the big mall, we look for a few of them. Without anchor tenants, a mall will not survive".*

Brueckner (1993) agrees on the necessity for anchors, however, cautions that the mere inclusion of an anchor store is insufficient; the type of anchor store is crucial.

*Interviewee 7 said:*

*"The first consideration is whether the tenant can afford the rent. People wanting to rent niche stores have great ideas that are not practical. For example, they want to turn small items which are of low value, yet cannot reach a breakeven point to pay the rent and staff if all the stock is sold monthly".*

Des Rosier (2011) also highlighted the tenant's ability to afford the rent. The researcher stated that tenants with chain-store affiliation can command relatively significant rent reductions and property professionals need to weigh up the lower rentals against the security of income. In the search for a lower risk profile, i.e. fewer tenants defaulting on rental payments, a property professional also needs to account for the fact that a tenant mix that is predominantly chain-store affiliated may simultaneously lead to a reduction in the variety of offering (Gerlich, 1998). Therefore, a delicate balance should be found between the anchor and non-anchor tenants, what Bruwer (1997) refers to as "balanced tenancy".

*Interviewee 4 mentioned:*

*"We do a credit check of the applicants and assess the application against our tenant plan".*

*Interviewee 2 remarked:*

*"Most small store applicants for tenancy have no collateral or business plan to make a business case. Therefore, we guide them along and make a calculated guess of the success potential of the applicant".*

*"It is a delicate balancing act of getting tenants and working according to the tenant mix plan. What happens when tenant demand is very weak? Currently, we are in a difficult space. The economy is flat and vacancy levels in shopping centres are high. When this happens, it's all about getting tenants".*

Naidoo (2017) mentioned that in interviews with shopping centre managers, he found that conducting thorough credit checks on potential tenants, requesting surety, and understanding the underlying legal structure of the business is another means of securing the right tenant. This is confirmed by Kirkup & Rafiq (1994) when they state that the landlord's choice of tenant mix and allocation of space also influence the vacancy rate (the percentage of the vacant lettable area [vacant stores] over the total lettable area [or leasable]).

It is believed that anchor tenants drive traffic to a shopping centre (Harmse 2012). This is one of the reasons why anchor stores such as chain stores are favoured by developers and centre owners over independent retailers in a shopping centre. According to Garg & Steyn (2015), anchor stores attract funding for a centre, and it is posited that strong tenants (or popular tenants like chain stores) are critical to a centre's financial success. Furthermore, franchises are a preferred alternative by entrepreneurs over independent businesses (Mtsweni *et al.* 2018). This is due to their establishment in the retail sector, and their preference can be attributed to the fact that due to being more trusted by consumers, their financial success is more highly guaranteed than that of independent retailers. In addition, banks tend to make financing more readily available to businesses such as franchises due to their higher success rates and the familiarity of banks with the franchise-financing process (Entrepreneur 2019). This concept is also applied to chain stores, which will also be able to receive financing from banks more easily due to familiarity of banks with more popular brands. This secures income for centre owners, should these chain stores be instated as tenants.

Anikeeff (1996) states that the selection of the key or anchor tenant is the first critical factor.

After the selection of the anchor, decisions can be made about:

- identifying the appropriate variety of tenants to create an image that differentiates the centre;



- selecting tenants that help each other increase sales by creating centre synergy;
- selecting tenants for financial stability to satisfy underwriting requirements;
- setting total charges — rent, common area maintenance, taxes, insurance, and particularly percentage rent — to fairly compensate for the risk involved in creating a successful centre with high sales volume; and
- establishing tenant control through leases to offer the landlord some degree of management of risk.

Contrastingly, independent retailers are not as popular with shoppers as chain stores or anchor tenants, and must thus work harder to gain the trust of consumers. This also implies that independent retailers, which are also smaller tenants, must sufficiently gain the confidence of centre developers and owners to be given the chance to trade in a shopping centre. They are also less likely to be able to secure finance from the banks for their business ventures. Because the success of individual tenants has a direct impact on the success of a centre holistically (Ojuok 2010), centre developers and owners must ensure that care is taken during selection of independent retailers. As mentioned earlier, having the correct tenant mix is vital for the overall centre success, as tenants, large and small, have synergistic effects on each other (Kaylin 1973; Bruwer 1997). It is advised that management strictly evaluates potential tenants in order to ascertain whether they will be well-suited to the (existing) centre tenant mix (Ibrahim & Galven 2007) as well as whether they will be able to afford the centre rentals.

#### ***Junction Mall & T-Mall, Kenya***

*A study by Ojuok (2010) was conducted based on the Junction Mall and T-Mall in Kenya. The study aimed to analyse the tenant mix of the malls as well as to determine the influence of store location on the tenant mix, among other objectives. Subjects of the study totalled 53 respondents and included chief officers, general staff, as well as departmental heads belonging to the real estate firm which manages both malls.*

*Respondents indicated that tenant selection and store location in the malls were based on the needs of consumers, variety of goods and services, the amount of rent affordable by the tenant, compatibility of the tenant with surrounding stores in terms of merchandising practices, and tenant competition, among others (Ojuok 2010). The study also uncovered that the allocation of space and retailer located within the malls is a vital factor in shopping malls (Ojuok 2010).*

*Furthermore, the study by Ojuok (2010) also established that individual tenant success and the success of a shopping centre/mall holistically are interlinked and that the synergy created by the tenant mix as a whole enhances both tenant and centre success. The author also found that complementary tenants ought to be clustered, while contrastingly, incompatible retailers should be dispersed.*

One concern about the current practice is that tenant selection risk management is done through the lease, on an individual tenant basis. Decision makers look at expected rents but do not explicitly consider the advantages of diversification of the tenants.

### QUESTION 3

#### How is the tenant mix in a new shopping centre determined?

There is a consensus that the tenant mix is one of the most crucial factors in the success of a shopping centre (Anikeeff, 1996; Bruwer, 1997; Roger, 2005).

According to Carter and Allen (2012), research has been done to explore the determinants of store/tenant location within shopping centres, and the retail industry knows a good deal about where types and sizes of stores should best be located. However, there is a prevailing belief among real estate professionals and academics that an “ultimate tenant mix” (including tenants’ locations) is discoverable, which should prove very useful to shopping centre management in deciding which tenants should be included in a mall and in which locations. However, no exact formula exists, and research continues based on adding to the knowledge of optimal store location and tenant mix.

Similarly, Yiu & Xu (2012) states that since the possible mixture of tenants makes a distinctive contribution to the image of the shopping centre, how is it possible for us to identify an “ideal” or “balanced” tenant mix for a certain shopping centre? Moreover, tenant mix is not a static condition: the market changes over time, as do the customer preferences and fashion trends. Therefore, even the “ideal” condition achieved in one season or period might not be suitable for the next one.

*A few interviewees mentioned:*

*“As Mike Tyson says, everybody has a strategy until you get punched in the face. The tenant mix strategy disappears when you are battling to find tenants. Then occupancy is the one important criterion. You take what you get. No tenants equal no shopping centre”.*

*“Tenant mix is generally done in your firm by meeting with people involved in setting up a new shopping mall or refurbishing an existing one to discuss the layout. We usually ask the architect to propose a layout and then discuss it. It is worked out mostly by our collective experience, gut feel and instincts. Most of the time it works but sometimes we hit flops”.*

*“Tenant mix is a mixture of craft and science. When you mix the two, you come up with a good tenant mix. Its science part refers to market research and studying the layout of other shopping malls with similar characteristics”.*

*“If you are searching for the ideal tenant mix formula, you are not going to find one. Store layouts in one shopping centre may not work in another. We learnt that the hard way”.*

There is no one-size-fits-all tenant ratio. Each property should reflect a balance of retail, dining and entertainment offerings that appeals to its surrounding market. Across Pennsylvania Real Estate Investment Trust's portfolio, apparel tenants make up less than 37% of occupied space, with dining and entertainment coming in at 20% and growing. But at Plymouth Meeting Mall, nearly 50% of space is dedicated to dining and entertainment – demonstrating the quick evolution of that market and PREIT's efficiency in innovating the property at a rapid pace (Cardino, 2020).

*Some interviewees said:*

*"We place the anchor tenants such as supermarkets at the opposite end of the mall and the nearest to the parking area so they can move their trolleys to their cars easily. The rule is to put the food court in the centre of the mall with the greatest accessibility for consumers in all sections of the mall. We also zone retailers such as clothing, health care and electronics so it is convenient for customers. Service operations, e.g. laundry and key-cutting are on the periphery".*

*"For us, the biggest challenge is the positioning of the anchor tenants. Since they pay a lower square meterage rental, we must get the maximum value out of them. They must increase footfall and help to increase the turnover of small retailers. It's about complementarity".*

*"The trick is to get the customers to walk as much as possible in the mall to encourage purchases. There should also be rest areas to stop and have a coffee or ice-cream before moving on".*

*"Our biggest problem with getting the best tenant mix is the unwillingness of owners to invest in the centre".*

*"We use a retail layout specialist who guides with clustering, stores, store sizes and getting the overall mix right to increase footfall".*

*"There is no such thing as a tenant mix strategy. Every shopping mall is different. You must use common sense".*

*"The ideal tenant mix should have stores that complement each other as well as competition between stores selling the same goods. There should be a diverse range of eateries to cater for all palates. Access to and from the centre should be good".*

*"There must be something that excites a person to come to the mall above just shopping. Things like entertainment, food, activities, ambience, socialising, etc.*

The criteria used in selection and location of tenants on various floors in a shopping mall by the respondents include consumer needs, tenants offering variety of goods and services, tenants that can meet the customers demand by offering a medium to high range of the products and service quality and price range, how much rent the tenant pay, compatibility of

tenant's merchandising practices with those of adjoining stores, competition amongst tenants, tenants characteristics such as monopoly or near-monopolistic trading conditions.

In an article by Ibrahim & Galven (2007) it is discussed that tenants should not merely be selected on the basis of being able to afford the rent. The authors, like many others, are of the belief that tenant mix is one of the most influential factors in the success of a shopping centre. Although anchor tenants are of utmost importance for a shopping centre to run successfully, the significance of smaller and independent retailers should not be undermined.

Smaller retailers add variety to a shopping centre (Harmse 2012), which cannot be provided by larger anchor stores. According to Cloete (2001) having several smaller tenants is more attractive to consumers than having merely large, anchor stores in a centre. While anchor stores often offer a range of goods & services, they are insensitive to the ever-changing needs of consumers (Ibrahim & Galven 2007). It is this gap which is bridged by the smaller retailers who are able to provide more specialised goods and services.

Smaller tenants at a shopping centre, however, do not enjoy the perks of paying low rentals like anchor tenants. Because anchor tenants are used to draw shoppers to a centre and thereby increase its foot traffic, they are given privileges with respect to rent and services charges (Damian 2008). Their rent is then subsidised by the smaller retailers. Kirkup & Rafiq (1994) discuss how smaller retailers are included in a centre to add variety as well as to create a differentiated image which attracts customers. Hence, both anchor stores and smaller tenants are required for a healthy tenant mix in a shopping centre.

Ibrahim & Galven (2007) argue that developers charge small retailers higher rentals due to the fact that the small retailers lack bargaining power when compared with anchor stores. Although the higher rentals paid by smaller retailers is a disadvantage to them, these retailers rely heavily on the traffic generated by the anchor stores (Damian 2008). It was found that on closure of an anchor tenant store (e.g. a chain store) the other stores (smaller retailers) nearby tended to be adversely affected (Yeates *et al.* 2001). Thus, although the smaller tenants are expected to incur higher rentals in a shopping centre, they require the synergy obtained from neighbouring anchor stores whose rent they subsidise in order to achieve any success at all in the shopping centre setting. The screening process for small retailers to be offered leases at a shopping centre will therefore be more intense based on facts such as they are less popular and developers therefore have less confidence in their success, their ability to generate a profitable turnover and their affordability of rent.

### **Metropolitan Centre & The Woodlands Shopping Centre, United Kingdom**

A study conducted by Dennis et al. (2002) on two shopping centres in the West London region was aimed at establishing shoppers' image of shopping centres. The study considered branding as well as other factors which contributed to centre attractiveness from the perspective of the shopper. These factors are necessary to determine as they contribute to tenant mix or tenant selection, and assist centre management in attracting a greater market share in the current highly-competitive retailing industry. A more attractive centre and tenants with better branding will draw a larger crowd of shoppers. Subjects of this study were asked to rate the two centres (Metropolitan Centre and The Woodlands, whose names have been changed for anonymity purposes) comparatively.

Following the study, it was found that respondents preferred The Woodlands centre as they found it superior to the Metropolitan Centre in several ways. There were some similarities drawn between the centres. However, the primary differences in ratings were found in constructs relating to the 'environment' and 'socialising', which were interestingly noted by Dennis et al. (2002) to relate more closely with 'experience' than with 'shopping'.

Some of the favourable elements of the Metropolitan Centre were that there was "functional shopping, convenience" and that the centre was "good for the quick shop" (Dennis et al. 2002). Also, respondents claimed that the centre was "good for specific item", "value for money" and that it catered well in terms of outlets attractive to teenagers (Dennis et al. 2002). This is indicative of a good tenant mix, providing useful retailers or merchandise, affordability and ease of access. On the contrary, respondents indicated that the centre failed in its "lack of class shops" and that it had limited variety of offerings (Dennis et al. 2002), indicating that the tenant mix has room for improvement as it does not cater adequately to its target market.

## **QUESTION 4**

### **What are some of the challenges to determine an optimal tenant mix?**

Kirkup and Rafiq (1994) provide three reasons for the difficulty in maintaining a successful tenant mix. Firstly, heightened competition between centres, arising from their proliferation and consumers greater mobility, has created pressures for differentiation between centres through tenant mix. Secondly, a difficult retail market will result in falls in retailers space needs and a reduction in landlords flexibility in managing tenant mix. Thirdly, ever-changing demographics, fashion and consumer demand, which lead to the decline of some older retailers and the brisk expansion of new ones, often with different space requirements.

*Interviewee 6 stated:*

*"With an existing shopping mall, there's not enough flexibility with tenant mix. A retail store might close and the space is vacant. The priority is to find a tenant and secure the lease. The second priority is to get the tenant mix right. But it's a second priority. As far as possible we try to get a replacement, e.g. a shoe shop closes and we try to get another shop in..."*

In contrast, Coradino (2020) takes a different track when he states that closures represent opportunities to bring new, dynamic and coveted brands to malls to create a differentiated experience for shoppers. A blend of retail, dining and entertainment can strengthen the position of malls and help drive traffic to – and value for – the property. The trend is to replace traditional department stores with more contemporary anchor tenants.

*Interviewee 9 mentioned:*

*“In hard times, the challenge is to find anchor tenants. Without them, we are in serious trouble. And in a downswing that’s tough”.*

*Interviewee 3 stated:*

*“Space allocation and location of stores is a complex issue. One type of location may be suitable for one tech store but unsuitable for another”.*

*Interviewee 10 said:*

*“With our company’s experience with shopping malls, we can estimate the turnover and profitability of stores in terms of the location of the mall and the size of the retail store with some degree of credibility. But the big challenge is to get the tenant mix right”.*

Bean (1988) mentions that two features of the tenant mix problem lend complexity to its formulation. One is the presence of "interaction effects" between stores of the same type, i.e. the dependence of one store's sales on several other stores similar to it in the mall. Consumers are drawn to a mall by a balance of variety and homogeneity of stores. A customer with a long and varied list of items to buy will be attracted to a mall with many kinds of stores. A tenant mix for a regional shopping mall is designed to attract both customers. To use "interaction effects" optimally, the tenant mix should contain "enough" of each type of tenant but not "too many".

Change occurring in customer demand due to the emergence of new types of retailer has caused difficulties in maintaining a strong tenant mix. Changes in retail market may be caused by shopping centre competition, economic recession and changes in customer demands and that it is difficult for shopping centres to remain strong in their tenant mix due to the changing market trends respectively, the first point-scoring the highest and the latter lowest.

### **Profilo Shopping centre, Istanbul, Turkey**

*According to Verdil (2009), the Profilo shopping centre situated in Sisli Maslak region draws its customers from the surrounding residential areas and large office blocks. It is said to contain 250 stores, 3 theatre halls, 7 cinema halls, a bowling alley, a large sports centre and parking space for 1500 vehicles. On the lower floor, the theatre hall, an entertainment centre and the sports centre are located. On the upper floor, there are dining areas and cinema halls. Remaining spaces are occupied by stores and cafés. This is indicative of a good mix of tenants, and the ample parking space makes this centre more attractive to consumers.*

*There is a random arrangement of stores, according to Verdil (2009). There is also one main entrance, formed as an atrium at the main circulation area, leading into the shopping centre. A distinctive feature of this centre is that there are escalators situated at the empty atrium area of the centre, and consumers tend to use vertical circulation (i.e. the escalators) more than the side entry points. There are secondary entries situated at the car park area, as well as two side entries. However, Verdil (2009) claims that consumers favour the main entrance.*

## **QUESTION 5**

### **What are the major trends in the tenant mix in shopping centres?**

The shopping centre industry has changed dramatically in recent times. Technology, online shopping, social media, climate change, volatile domestic markets, and intense retail competition have compelled shopping centre owners to innovate so that they can differentiate their mall from the one nearby.

Shopping centres are becoming more complex in terms of their size, type and characteristics in response to fast-changing consumer demands. The competition comes from the new and changing format of shopping centres: business centres, hypermarkets, outlet centres and lifestyle centres.

Interviewees were asked to describe the transformation unfolding in shopping centres and how owners are working to reshape their tenant mixes to attract more customers.

*Interviewee 7 says:*

*“A shopping centre that focuses on shopping alone will find it hard to survive in business today. Customers come to a shopping centre for much more than shopping. They want entertainment; they want to socialise; they want to conduct business and do some shopping”.*

A substantive body of research suggests that shopping has turned into an experiential activity (Holbrook and Hirschman 1982). Retailers seek manifest ways to generate entertaining shopping experiences as a source of competitive advantage (Jones 1999). Shopping has shifted to the realm of emotional, novel, memorable, aesthetic, engaging and recreational customer experiences, and this necessitates that retailers innovate and create enhanced channels for ensuring such experiences.

Redefine Properties intends to increase footfall to the mall by expanding its food court offerings, leisure and entertainment. The underlying thinking is that people are social beings. They want to spend downtime in a place where they can integrate shopping with other aspects of their lifestyle (Muller 2019).

*Interviewee 9 mentions:*

*“Our mall has unlimited free WiFi which is a very big attraction”.*

Another key aspect to consider is the impact technology and digital advancement is having on consumer purchasing habits. Technology has given the consumer the tools to put them in a position to demand a tailored, seamless and multichannel shopping experience and a social media powered experience. Shopping centres need to have a blend of physical, technology and digital approaches.

Stops (2019), CEO of the South African Council of Shopping Centres, says that today’s customer experience is all about “inspiration” no matter what category a shopping centre plays in. Digital helps engage the retailing community on an ongoing basis, connecting with them in relevant and creative ways. Consumers want to be able to use technology to help them engage with the store, whether physical or digital, at every step of the shopping journey. It is a powerful tool in influencing and changing consumer behaviour. The key issues are optimising the blend of the shopping centre experience with the customer and thereby gaining a competitive advantage.

*Interviewee 2 said:*

*“As shopping centre owners, we got to create exciting and memorable experiences for our customers. We’ve got to surprise them a bit more every time they come to the mall”.*

Coradino (2020) mentions that retail real estate owners with foresight into retail trends and proactive strategy to enhance their portfolios are shifting properties to become multi-purpose social destinations for consumers in the community. To put it simply, the mall of today is drastically different than a decade ago and should not be burdened by an outdated definition. The new model prioritises socialising with shopping and blends a rich variety of



retail, dining and entertainment tenants. This diversity enhances the overall consumer experience.

He elaborates that successful malls are driving traffic and sales with restaurants, entertainment concepts, fitness studios, grocery stores, salons and spas, and everything in-between as consumers crave more social experiences. For example, the Plymouth Meeting Mall in Philadelphia has half of its tenancy dedicated to dining and entertainment, such as LEGOLAND Discovery Center, 5 Wits, and Dave & Buster's complementing the mall's retail offerings. Co-working spaces, art galleries and family destinations have also all successfully differentiated retail centres, reshaping the definition of a mall today (Coradino, 2020).

The health and wellness sector is undergoing explosive growth, with boutique gyms, spas and salons providing an opportunity for personal wellness time alongside shopping and dining.

*Interviewee 8 says:*

*"If our mall is to become sustainable over the long-term, then we must do much more than selling goods and food. The overseas mall has added residential apartments, offices and hotels to the property. Sandton City and Century City have moved in this direction but other malls need to diversify their income streams. This is going to be the next challenge for malls".*

Shopping malls must innovate, reinvent their spaces and connect with shoppers in ever deeper ways if they want to avoid becoming casualties of technology and the internet, as consumers increasingly seek out greater shopping experiences.

According to Terblanche (in Muller, 2019), the changing shopping behaviour in South Africa will be driven by technology and rising living costs:

*"Local shopping centres and retailers need to up their game if they want to avoid a similar wave of store closures, consolidations and downsizing to that in the US and UK. Being innovative and looking at emerging trends and implementing them will be more important than ever before. Simply offering a space to shop isn't going to cut."*

Consumers behaviours are changing so dramatically that mall owners and retailers are facing what is referred to as a "retail apocalypse". In the US and UK, hundreds of retail chains have filed for bankruptcy, thus crippling formerly thriving shopping malls. In South Africa, the industry players are grappling with convincing cash and time-strapped consumers to visit malls, stay longer and spend more (Muller, 2019).

By welcoming an array of solutions, mall owners can help cultivate tenants that are new to the mall environment and cultivate longer-lasting relationships in the process. It may take some creativity, but collaborating with tenants can be a win-win-win for retail owners, tenants and shoppers alike.

*Interviewee 10 said:*

*"We are encouraging new types of tenants like pop-up stores, the online business that wants a physical presence, kiosks at different points with artisanal food offerings and temporary shows such as a mini-circus".*

According to Wiley (2019), pop-up retail is "nothing more than a short-term retail outlet". This concept requires mall owners to afford tenants greater lease flexibility but also results in greater risk on the owners' parts of having to deal with unproven tenants. The pop-up retail concept has advantages concerning the mall owner in terms of providing consumers with constant variety and new products to look forward to while allowing new vendors to test the market with the benefit of lower financial risk.

*Interviewee 2 remarked:*

*"A major trend that is redefining shopping centre is climate change. Environmental concerns such as the carbon footprint of the mall are not just a fad but a public good. It is also a marketing instrument to attract environmentally-conscious customers to the mall".*

The integration of the shopping centre with technology and digital to create a great customer experience is verified by research (Fantoni *et al.* 2014; Naidoo 2017). Consumers say that the physical store remains an important element of both researching and purchasing. Shoppers increasingly prefer to research online, but many still go to a store to make their purchase. With the convergence of online and offline shopping, digital has become the avenue of growth. Stores do not need to make the sale – they need to deliver experiences that support the brand (Stops 2019).

*Interviewee 1 says:*

*"We encourage our tenants to buy and sell ethically sourced goods and foods. However, we cannot force them to do so".*

Green sustainability, recycling, waste management and environmental concerns are getting more traction with formal and informal role-players involved. Retailers worldwide are making their stores environmentally sustainable, a strategy that is good for the earth and is also good for business.

Johannesburg's Melrose Arch and Cape Town's Harbour Arch green building initiatives include water-saving measures and refuse to recycle. Melrose Arch is architecturally designed to utilise more natural light, thereby reducing the demand on electricity. Harbour Arch harvests rainwater, thereby decreasing the demand for municipally supplied water (Guedes ca. 2019).

Dubai's City Centre Mirdif Mall is 40% more energy efficient than others in the area. It reduces energy costs by \$350 000 a year. Energy efficiency was extended to their food court with the aid of smoke and heat detectors installed in cooker hoods to automatically adjust the fan speed. This instalment saved 55% energy and 46% is saved on chilled water (JLL 2017).

According to Petro Myburg (SACSC 2020), Operations Manager at the V&A Waterfront, they have been decreasing their consumption since the 4-Star rating in 2015. "We have further improved our waste management systems and implemented a Wildlife Management Programme".

The categories on which the Victoria Wharf were rated highly for additional sustainability features in 2019, included management, indoor environmental quality, energy, transport, water, materials, land use and ecology, emissions and innovations.

The Waste Recovery and Recycling Centre has created more than 80 jobs related to waste management. It has also established a training facility to introduce a tenant education programme. Between 2018 and 2019, the recycling operations diverted more than 3 000 tonnes of waste from going to landfill (SASCE 2020).

### **V&A Waterfront Rewarded Sustainably Green**

*The Victoria Wharf Shopping Centre in Cape Town's V&A Waterfront has been awarded the highest environmental rating of any existing shopping centre in South Africa. It has been crowned SA's greenest shopping centre, following an extensive strategy to enhance its green footprint.*

*Its far-reaching waste management and recycling practices have earned the property the prestigious Green Buildings Council of South Africa 5-Star Green Star Existing Building Performance v1 certification. The shopping centre in the heart of the V&A Waterfront attracts almost 24 million visitors per annum, making it the country's most visited destination.*

*Focus on energy and water monitoring, along with management policies and plans are required to achieve a 5-Star rating. The rating tool also measures the relationship between landlords and tenants. Setting up a win-win situation.*

*Tenants needed to come on board and sign a green lease agreement to achieve the accolade for the greenest shopping centre in the country. The lease tracks the tenant's energy and water consumption with incentives for recycling. Some of the environmental features include the use of grey water, low portable water consumption, LED lighting, natural light features and extensive waste management practices.*

The evolution of the shopping centre industry is one of staggering promise and opportunity – as well as uncertainty. The future may be unknown yet two things are for certain, customers will continue to change and digital advancement will carry on shaping our world in ways that encourage people to form new habits, find new ways to work together, and become better human beings. And, in most cases, these changes translate into a range of opportunities and disruptions across every part of our industry (Stops 2019).

### **Masingita Mall, Giyani, South Africa**

*According to Adatia (2010) in her case study of rural developments, in the Giyani area in 2007, Masingita Mall was established and stood at 10 000 square metres. By 2010, there were already plans to expand the shopping centre. The majority of the tenants are national stores, such as Boxer Superstore, PEP, Ackermans and Mr Price, to name a few (Adatia 2010).*

*This tenant mix is suitable for the (low-income earning) target market of this area, as these stores are affordable and offer good quality products. There is also a good variety of stores at this centre. The centre is well-located, near the main taxi routes, making it highly accessible by visitors to Giyani from the nearby rural areas. The centre also does not have competition, as the only other centre in the region is the larger Masingita Plaza, which houses local traders and not national stores like Masingita Mall (Adatia 2010).*

Masingita Mall, Giyani



Source: Mark Souris (Adatia 2010)

Although it is atypical for national stores such as Boxer stores to be included in shopping centres, it has been noted by Adatia (2010) that this is the case in outlying and rural area shopping centres. The author found that Masingita Mall in Limpopo included a Boxer Superstore, while a Boxer Cash 'n Carry was present at Thula Plaza shopping centre in Mpumalanga. It is important to note that although these stores are not found as anchors, let alone tenants, at urban and most township shopping centres, in order to cater to the target market in rural and outlying areas these tenants will need to be included in the tenant mix to ensure success of the centre.

Such stores are favoured by the target markets in these areas, as they are able to supply consumers in these areas with the goods and services they require, and which are well-suited to their budgets. These stores are perceived as 'value-for-money' stores in these areas. Anchor grocery stores such as Pick 'n Pay and Spar will not likely succeed in the rural setting, as their pricing is unaffordable for rural consumers.

On the other hand, stores like Boxer are not included in urban shopping centres as they are not suitable for the target markets in these areas. In urban areas, anchor grocery stores such as Pick 'n Pay and Spar are favoured, as they are seen as superior in quality and variety, and consumers in these areas are able to afford their pricing. Stores like Boxer will also not be likely to achieve success in the urban setting.

As can be seen from the above comparison, anchor tenants selected for shopping centres in specific regions are relative to the target markets in their respective regions, and are dependent on the spending potential as well as the perceptions of 'quality' and 'value' by consumers in these areas.

## **4.2 CONCLUSION**

As the industry evolves, there will be a continued effort to diversify the tenant base and add new tenant concepts beyond the traditional ones. According to our Shopper Survey, nearly two-thirds of consumers like to do more than just shop at the mall -- whether it is eating, watching a movie or just having fun. As consumer behaviours shift, so too will the offerings at malls to drive traffic, attract new in-demand brands and add value to the property.

Trends are set by consumers, so the foundation of any property management programme should be rooted in understanding your consumer. Mall owners and retailers need to know the market, analyse sales data and consider historical retail trends. It is also imperative to look at how technology is changing the world around us and forecast how we can leverage it to truly optimize the shopper experience and continually drive demand.

Some grocery stores, such as Boxer, which serve the lower LSM (living standards measure) categories are not typically found in shopping malls. This is because such stores store a limited number of brands, which serve the lower-income groups. They also serve the spaza shops. Hence, their products are not suited for higher-income shopping malls since rentals are high. Therefore, tenants need to increase their margins to turn a profit. However, there are some exceptions, such as the case in which a Boxer store is included in Masingita Mall in Giyani – a rural area in Limpopo Province.

The same thinking prevails for take-aways such as Hungry Lion and Honchos whose low pricing means that it cannot be sustainable in a shopping mall, especially if it serves upper LSM levels.

Generally, low-cost shops are found outside shopping malls because rentals are much lower. Even township mall tenants tend to be middle- to high-end.

## CHAPTER FIVE: RECOMMENDATIONS

### 5.1 METHOD TO DETERMINE OPTIMAL TENANT MIX

Based on the findings of the preceding chapters, a method for determining the optimal tenant mix is devised:

#### **Step One: Identify Centre Location and Trade Area**

The first step in this process is to research the shopping centre's location and its trade area(s).

Centre location research is essentially concerned with identifying the ideal position and site for a new shopping centre. The term "location" means both a broad geographical reference point and the precise piece of land to be occupied. Ostensibly, this research should try to determine an optimum location.

A trade area is a geographic sector from which the sustaining patronage for steady support of a shopping centre is obtained. The boundaries are determined by several factors, including the nature of the centre itself, accessibility, physical barriers, location of competing facilities, and limitations of driving time and distance.

A critical aspect of market analysis is estimating the trade area to be served by the new shopping centre. However, it is almost impossible, and certainly not cost-effective, to delineate a trade area from which 100% of the centre's sales will be derived. At best, one can outline a trade area from which 85-90% of the volume will originate (McCollum 1988).

Once the total trade area is established, the researcher subdivides it into zones. Centre location analysts frequently subdivide a centre's trade area into primary, secondary and tertiary (or fringe) areas (Applebaum 1966). McCollum (1988) and Berman and Evans (1995) define these areas as follows:

*Primary zone.* The geographical area from which the centre will derive its greatest share of recurring sales. It is the area closest to the centre and the zone generally extends 5 to 8 kilometres from the site and is usually no more than a ten-minute drive by car at the furthest point. It encompasses 60-80% of a centre's customers. There is significantly little or no overlap with other centres' trade areas.

*Secondary zone.* Contains an additional 15-25% of the centre's customers. It is located outside the primary area, and customers are more widely dispersed. Usually, it extends 8 to 12 kilometres and is no more than 15 or 20 minutes by car to the site. More than one secondary zone for a centre can exist.

*Tertiary zone.* The outermost ring or fringe trade area which includes all the remaining customers who are most widely dispersed. It extends 25 kilometres in major metropolitan markets and much further in smaller markets.

The selection of a location and the opening of a store/shopping centre is thus probably the single most important decision in retailing.

An example of determining retail gravity is given below:

Zone	Distance	Target Population	%
<i>Primary</i>	5 to 8 km	375 000	75
<i>Secondary</i>	8 to 12 km	75 000	15
<i>Tertiary</i>	>25 km	50 000	10

### Step Two: Create a Unique Identity and Image for the Shopping Centre

- The owner(s) should create a unique identity and image with the help of experts for the shopping centre.
- Use this identity and image as the basis for setting up a proper mix of tenants later.

### Step Three: Conduct Consumer Research

- A representative stratified cluster sample of households should be randomly selected from residential area maps, based on the area cluster sampling technique, by subdividing the zones (catchment area) into a total of sub-zones.
- Households are then selected on a random “per street” basis and no two households in the same street in the same cluster should be sampled to mitigate bias effects.
- Face-to-face interviews using a detailed structured questionnaire should be conducted at the households’ addresses in the evenings by trained interviewers in the first language of the householder.

### Step Four: Develop A Tenant Mix Policy and Strategy

- Develop a formal tenant mix policy, procedures and strategy.

### Step Five: Determine and Apply Criteria to Select Tenants and Allocate Space

The following conceptual framework is devised to determine and apply criteria to select tenants and allocate space:



NO	CRITERIA	DESIRED OUTCOMES
<b>A</b>	<b>The evaluation and selection of tenants for the centre</b>	i. Unique image of the shopping centre ii. Variety of compatible retail and service providers iii. Efficient space allocation iv. Proper tenant placement v. Sales spillover vi. Variety with products offer vii. Public services and facilities for the whole centre viii. Saves customers' time in searching for goods and services viii. Accessibility to centre ix. Parking
A1	Ability to afford rent	
A2	Sales revenue projections	
A3	Tenant bargaining power	
A5	Contribute to centre image	
<b>B</b>	<b>The location/composition of tenants for the centre</b>	
B1	The logical layout of stores (customer convenience)	
B2	Suitable location for tenant (proper placement)	
B3	Mix and match principles (variety/several brands)	
B4	Tenant compatibility (cluster/disperse)	
B5	Footfall traffic flow	
<b>C</b>	<b>The space allocation for each store</b>	
C1	Efficient square meterage (store type)	
C2	Visibility	

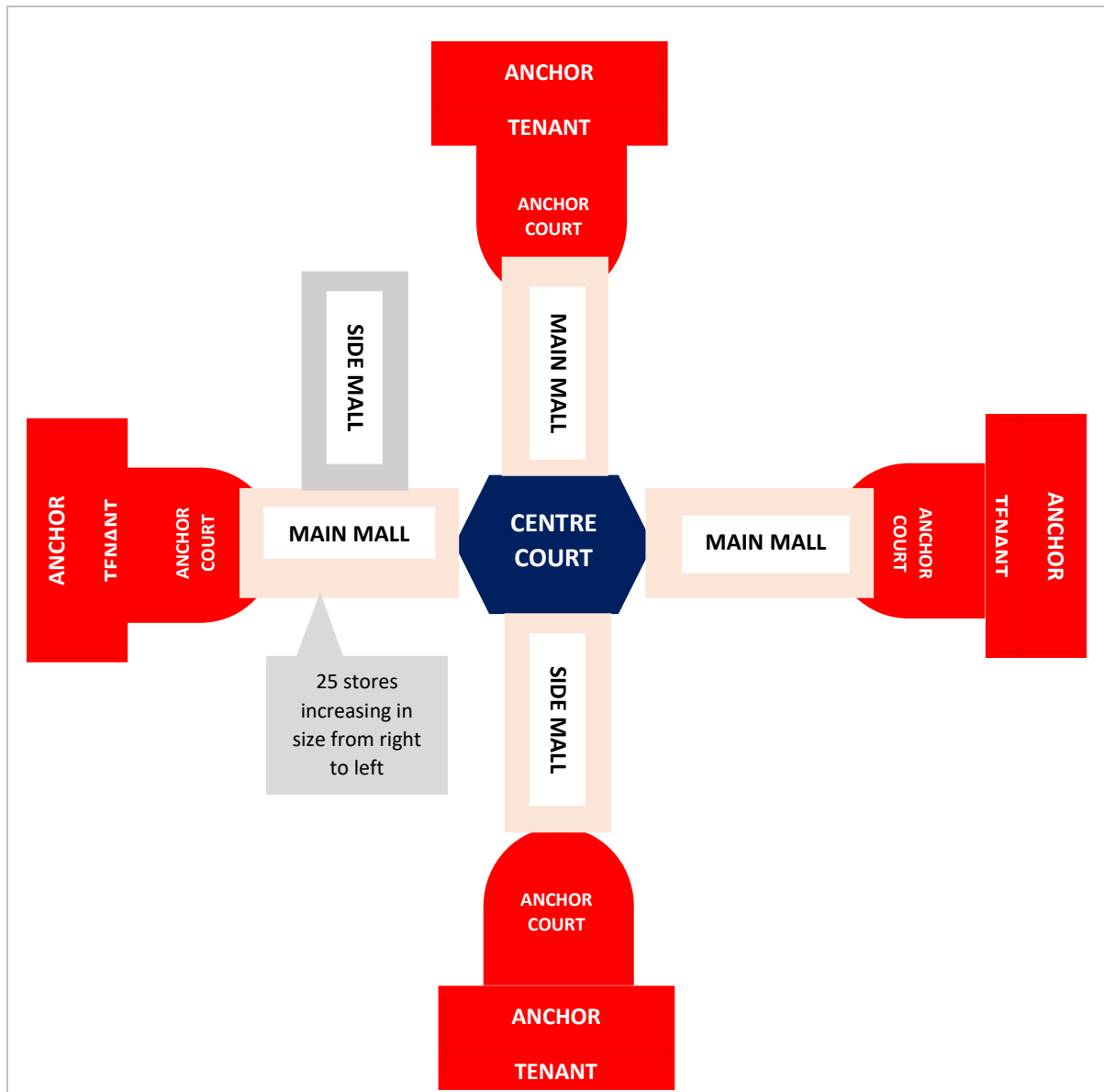
- A tenant plan, created through market research and lengthy investigations, will help place tenants in the accurate area of the shopping centre where they are expected to prosper.
- Each tenant should be evaluated in terms of (1) ability to afford rent; (2) sales revenue projections; (3) tenant bargaining power; and (4) contribute to the centre image.
- The owner(s) should evaluate whether the tenant fits the tenant mix.

### Step Six: Placement of Tenants in a Shopping Centre

- The placement of tenants in a shopping centre comprises certain rules:
  - (i) Place the magnet stores at opposite ends of the mall.
  - (ii) Ensure that the anchors and the entrances are sufficiently far apart.
  - (iii) Pull the shoppers past the line stores.
  - (iv) Avoid dead ends.
  - (v) Place service-orientated tenants close to entrances and exits.
  - (vi) Keep pet shops and dry cleaners away from food shops.
  - (vii) Keep food stores away from fashion outlets.
  - (viii) Keep an even distribution of customers within a multiple-storey mall by creating vertical access and spreading food stores.
  - (ix) Shops that pay the highest rentals are typically located within the highest traffic flow areas.



An example of a typical shopping centre layout:



Source: Carter, C. C., & Allen, M. T. (2012). A method for determining optimal tenant mix (including location) in shopping centres. *Cornell Real Estate Review*, 10, 72-85.

## 5.2 FURTHER RESEARCH

During the research, questions and statements that were pertinent to tenant mix were raised that did not form part of the study and further research is recommended:

- Who is responsible for determining the tenant mix policy of a shopping centre?
- How can centres update their tenant mix without relying on vacancies to occur?

- What are the differences in tenant mix planning for shopping centres in affluent and the working-class catchment areas?
- What are the leasing options in shopping centres for SMMEs?
- What is the relationship between tenants and landlords in shopping centres?
- What are the interdependencies between the anchor and non-anchor tenants?
- Are small retailers in shopping centres discriminated against when it comes to prime retail locations in shopping centres?
- How are shopping centre owners “going green”?

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