

A Practical Model for Estimating the Future Income of Under Planning Shopping Centres

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Abstract

The paper presents a practical and universal two-way approach to estimate the future rental income of under planning shopping centres. Rental income estimation is a critical component in commercial real estate development, and it is more challenging to acquire quotations for, especially contrary to construction and financing costs. Based on industry experience and literature review, the model proposes a standardised structure for a process that has been rather personal and fuzzy. One angle of the model is focusing on the analysis of the sales performance, which relies on the number of annual visits, the shopping basket size per visit, and the rent-to-sales ratio, while the other angle is focusing on a shop-by-shop rent roll analysis, which contains the list of potential tenants and their estimated sales performance and rent payment capability ranges. Both angles could be used for proof checking the other in this approach. There are also factors that affect the sensitivity range of one or both angles, such as the future project's location, size, branch and tenant mix, concept, brand equity, catchment area demographics, and competition. These are separately highlighted in the paper. The model is a useful tool both for real estate developers and the academicians that work on real estate, even though further progress is needed to narrow the current information gap in the field. Thus, this is a first step towards a new understanding, in which the stakeholders use uniform tools to work, conduct research, and collaborate.

Keywords: shopping centres, income estimation, feasibility studies