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Unifying The Built Environment

MAXIMIZING RETAIL SUCCESS IN 2024: HOW TO OPTIMIZE THE FULL REAL ESTATE LIFECYCLE
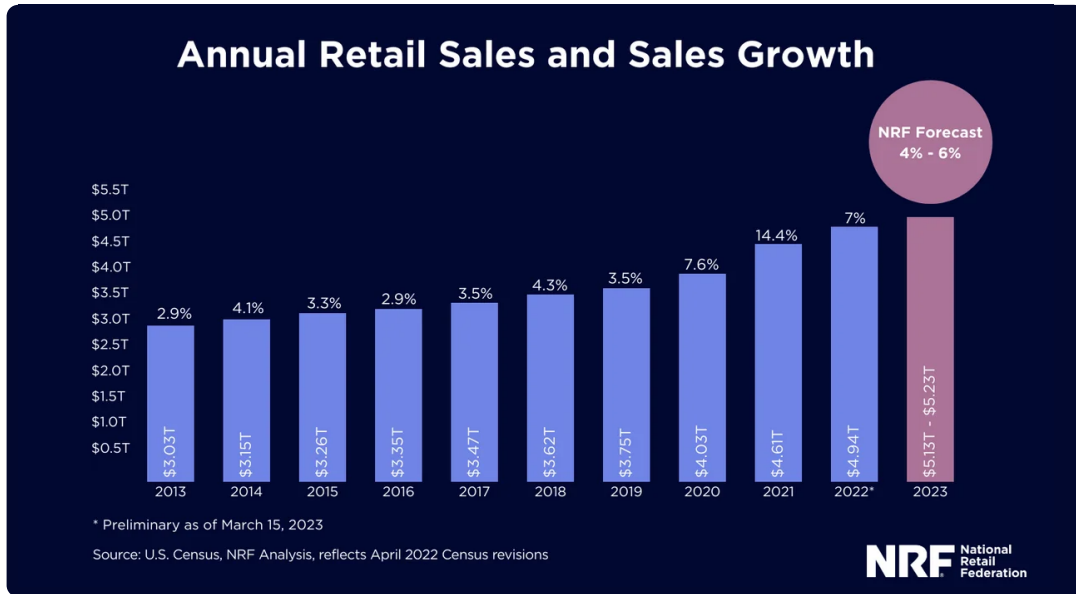
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INTRODUCTION

American consumers are incredibly resilient. Even after a tiring pandemic and relentless inflation, physical stores remain the primary point of purchase, accounting for 70% of total retail sales.[1] This puts a continual emphasis on the brick-and-mortar approach, which cannot be superseded by online ventures.

The evolving landscape of retail operations is shaped by shifting consumer behaviors, advancements in technology, supply chain innovations, and progressive industry trends. As technology continues to play a pivotal role, retailers are embracing digital transformation to enhance customer experiences and streamline operations. It enables them to stay agile and attuned to the ever-shifting expectations of modern consumers.

Annual Retail Sales and Sales Growth

NRF Forecast 4% - 6%

Year	Sales	Growth
2013	$3.03T	2.9%
2014	$3.15T	4.1%
2015	$3.26T	3.3%
2016	$3.35T	2.9%
2017	$3.47T	3.5%
2018	$3.62T	4.3%
2019	$3.75T	3.5%
2020	$4.03T	7.6%
2021	$4.61T	14.4%
2022*	$4.94T	7%
2023	$5.13T - $5.23T	

* Preliminary as of March 15, 2023

Source: U.S. Census, NRF Analysis, reflects April 2022 Census revisions

NRF National Retail Federation

Real estate is a critical piece of the puzzle for retailers, and it's typically one of the largest costs for a business. If you are siloed in your approach to real estate data, things can go very wrong. To increase profits in this competitive space, retailers need to have a solid growth plan, consolidated data, and an efficient means to manage capital.

This eBook is an insightful exploration into the methodologies that drive success across every stage of the retail real estate journey; which includes everything from strategic decision-making to lease management, expense control, compliance, and more.

This is about taking a holistic approach to optimizing the retail real estate lifecycle to make better business decisions.

[1]https://nrf.com/nrf-2023-annual-retail-sales-forecast-faq

OVERVIEW OF RETAIL REAL ESTATE IN 2024

In December of 2023, the retail vacancy rate across the United States was 4.6%,[2] the lowest level recorded since 2007. This is due both to high demand and low supply.

On the supply side, construction was started on 46 million square feet of retail space in 2023, compared to nearly 82 million in 2022. Factors for these reduced numbers include increased financing costs, reduced availability of capital, and elevated input costs like land and materials.

The lack of space was further witnessed by the demolition of more than 18 million square feet in 2023.[3] Plenty of demand still exists for prime retail corridors, and given the spare supply outlook, the probability is high that the retail real estate market will remain tight throughout 2024.

CHANGE IN DEMAND IN 2023 BY CENTER TYPE
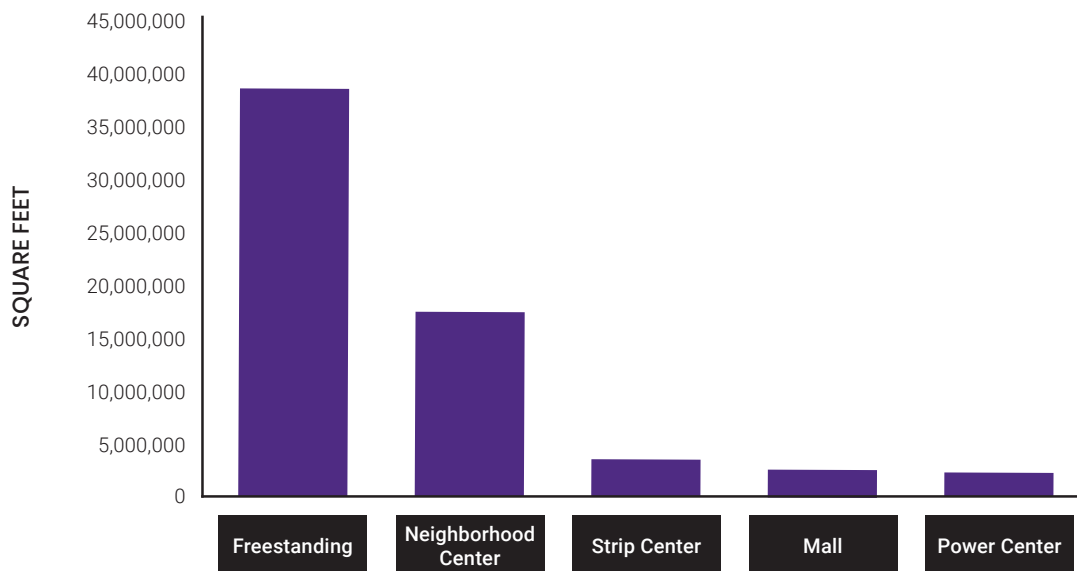
While ecommerce continues to grow, it makes up only 15% of retail,[4] so there is plenty of room for brick-and-mortar operations. In 2024, retail will emerge as a stalwart. The asset class is expected to experience steady performance, with moderately positive rent growth for neighborhood and community shopping centers, and unchanging vacancy rates.

Smaller neighborhood centers, especially those posing as alternatives to bigger malls, are gaining traction, but high inflation has raised the cost of construction materials and labor. This has resulted in greater insurance premiums and payouts.

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[2]https://www.forbes.com/sites/brinsnelling/2024/01/18/the-trends-reshaping-retail-real-estate-in-2024/?sh=380a120847c5

[3]https://finance.yahoo.com/news/building-boom-bust-2023-sets-190218833.html

[4]https://www.jpmorgan.com/insights/real-estate/commercial-real-estate/commercial-real-estate-trends

PAIN POINTS IN RETAIL REAL ESTATE MANAGEMENT

Managing the full real estate lifecycle can be complex, from identifying and selecting new sites to managing lease scenarios. Here are a few of the more common pain points:

Missed Lease Dates

This can cost millions of dollars in lost renewals, a lost site, overpayments, or break date notifications. The Notice Date is a critical date and missing it can affect the tenant's rights under its lease.

Complex Workflows

Retail real estate lease scenarios can get complex, and the solution you choose may lack the critical features and functionality required by an enterprise retailer.

Lack of Comparative Analysis

A lack of comparative analysis results in overspending, reduced transparency, compromised quality, and increased project risk. This is due to an inadequate comparison of contractor bids.

Managing Multi-System Environments

Maintaining a manual, multi-system solution for real estate projects is time-consuming, and less than accurate. This leads to limited cost visibility and missed opportunities.

Analyzing Cost Pressures of Price per Square Foot

Outside of labor, price per square foot is the biggest cost. Retailers must maximize the value of every inch they are paying for. Price per square foot can vary dramatically based on location, size, financing, market forces, and more.

Extended Project Timelines

The financial strain of extended project timelines will result in higher pre-opening expenses and lost revenue opportunities. The longer it takes to make the first sale, the more challenging it can be.

CHAPTER 2: MAXIMIZING RETAIL SPACE VALUE

STRATEGIES FOR PROFIT MARGIN OPTIMIZATION

How do you go about finding the perfect property? Opening new locations faster increases leasing revenue days. Leveraging market analysis and real estate site planning is the beginning stage of the process flow. This is where retailers identify goals from a real estate strategy standpoint.

A demographic and psychographic analysis will help you understand market preferences and tailor the space accordingly. Take a look at the competition to identify gaps in the market and opportunities for differentiation.

Advanced site selection tools can help you consider factors like accessibility, foot traffic, and local economic conditions. It gives you the opportunity to track every and any real estate site that might make sense, managing all of the due diligence in a single platform.

Pro forma lease analysis is another proactive approach for site selection. The financial modeling helps retailers better understand the implications of choosing a specific property, including short-term, long-term, demographics, market, and location.

COST MANAGEMENT AND EFFICIENCY

Another way to maximize retail space value is to reduce pre-opening expenses through streamlined operations. Conduct detailed market research and feasibility studies before initiating any new retail space.

Develop a concise budget that includes all pre-opening expenses. Then, prioritize these expenses based on necessity and the potential return on investment.

CHAPTER 3:
STREAMLINING RETAIL REAL ESTATE MANAGEMENT

UNIFIED SOLUTIONS FOR THE RETAIL REAL ESTATE LIFECYCLE

The best way to streamline any workflow is to consolidate the data into a single source. Creating a unified solution for the retail real estate lifecycle enables a business to make smarter, data-driven decisions.

The right tools connect disparate systems of information from real estate, project management, finance, and facilities, to ensure everyone is looking at the same data. It will combine data related to portfolios, performance metrics, leases, projects, and financials, into a single, centralized repository.

A comprehensive platform enables a retailer to manage lease agreements from initiation to expiration, enhancing data accuracy and accessibility, while reducing the risk of inconsistencies or errors. This involves tasks like lease creation, amendments, renewals, terminations, and compliance.

A holistic view of the entire real estate portfolio helps stakeholders make more strategic decisions. This includes identifying underperforming assets, optimizing the portfolio, and aligning operations with overarching business goals.

A STORY OF RETAIL REAL ESTATE MANAGEMENT SUCCESS

Kendall Dukes, Senior Manager of Real Estate Processes and Lease Administration at Banfield Pet Hospital, uses Accruent's LX Contracts to realize efficiency gains, increase productivity, and house all of their leasing data in a single spot.

Now, they have total visibility for when a lease expires, when it's up for renewal, and even a heads-up on rent increases. It fully supports their compliance efforts and seamlessly integrates with their accounting software, making it much easier to pay the rent every month.

OVERCOMING MULTI-SYSTEM CHALLENGES

Overcoming multi-system challenges starts with addressing inefficiencies and risks in decision-making. This requires transitioning to a single source of truth for retail operations and involves a systematic approach to consolidate data, streamline processes, and ensure consistency across the organization.

Centralize reporting to provide a comprehensive view for decision makers, and to reduce the need for manual intervention.

DATA-DRIVEN RETAIL REAL ESTATE DECISIONS

Turning raw data into actionable insights requires clean data visualization, intuitive dashboards, and in-depth reports. 65% of the population are visual learners,[5] meaning they need to see information to retain it. You can unravel the complexities of retail real estate data in compelling visual formats that facilitate quick comprehension and decision-making.

65%
Are Visual Learners

From property acquisition and portfolio management to strategic planning and operational efficiency, intuitive dashboards are empowering. They enable key stakeholders to gain a comprehensive view of retail operations and performance.

It's important to understand that data-driven reports shape strategic initiatives. Tailored reports contribute to effective communication and smarter choices at every level of retail real estate management.

Making more informed decisions based on trustworthy data leads to:

- Better facilities decision-making
- Validated compliance and simplified reporting
- Holistically managing landlord relationships
- Knowing where the business is exposed
- Better understanding of TCO by type of lease
- Reduced risk of overpayments to landlords
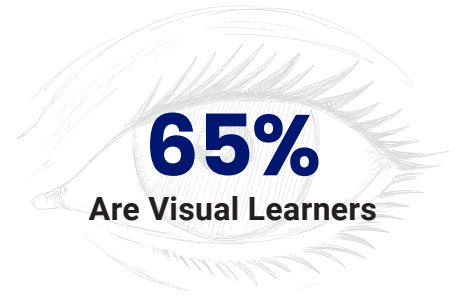
THE POWER OF CONFIGURABLE DASHBOARDS AND REPORTING

Dashboards tailored specifically for the intricacies of retail real estate ensure your insights align with unique challenges and opportunities. Customization for retail precision and retail-focused reporting minimizes decision-making risks, helping a business gain real-time visibility into operations.

Real-time data gathered through configurable dashboards provides immediate visibility into critical retail metrics. This enables proactive risk mitigation strategies, which minimizes the impact of uncertainties in retail operations.

MAINTENANCE MANAGEMENT

A diversified CMMS (computerized maintenance management system) and a trusted service provider network will help retailers navigate an increasingly competitive market.

A unified solution streamlines processes by optimizing maintenance management with capabilities for site selection, market planning, leasing, and project management.

A services agreement empowers store operations teams to provide the best possible guest and employee experience, across the board. Automate service requests and work orders for leased properties, instantly reducing errors and improving communication.

[5]https://www.atlassian.com/blog/teamwork/how-to-work-4-different-learning-types

CHAPTER 5:
PROJECT MANAGEMENT AND EXPENSE CONTROL

PROJECT EXPENSE MANAGEMENT IN RETAIL

Only 34% of organizations complete a project within budget.[6] You can avoid this with the right tools. Real estate project management for retail is all about streamlining construction, openings, and capital improvement projects to eliminate threats to the budget and schedule. This starts with creating and managing budgets using real-time reporting.

91% OF EMPLOYEES SAY THEIR COMPANY IS FACING **PROJECT MANAGEMENT CHALLENGES**

53% OF EMPLOYEES STILL RELY ON **MANUAL PROCESSES** TO SEND UPDATES TO PROJECT TEAMS

34% OF ORGANIZATIONS COMPLETE PROJECTS **WITHIN BUDGET**

[6]https://fitsmallbusiness.com/project-management-statistics/

Full budget management capability helps a retailer oversee the financial aspects of all the work being done, from the tracking of estimates to monitoring awarded values, maintaining contracts with your general and subcontractors, and managing the entire financial lifecycle. It's a wise idea to craft budgets that encapsulate bid-related expenses and project requirements.

Real-time reporting helps a retailer gain instant visibility into project expense management. Agile decision-making is facilitated by up-to-the-minute data, allowing for optimization and timely adjustments.

VENDOR BIDDING ACTIVITIES

Dashboards tailored specifically for the intricacies of retail real estate ensure your insights align with unique challenges and opportunities. Customization for retail precision and retail-focused reporting minimizes decision-making risks, helping a business gain real-time visibility into operations.

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STREAMLINING PROJECT WORKFLOWS

Centralizing project-related data will improve oversight, foster efficiency, and lead to successful project outcomes. Embrace integrated PM platforms that help to streamline workflows and automate tasks. Establish a centralized hub that serves as the epicenter of all project-related data.

Technology can unify project tasks, documentation, and communication, reducing manual efforts and improving collaboration. Real-time data sharing leads to proactive project oversight and management. Instant access to project metrics leads to more timely issue resolutions and strategic decision-making.

SCHEDULE AND MILESTONE MANAGEMENT

Explore tools and tactics for facilitating seamless communication among project team members. Set up automation for schedule and milestone management, eliminating repetitive tasks and accelerating the project timeline. This same strategy also works for approvals.

Automation ensures tasks are allocated efficiently, progress is monitored consistently, and potential bottlenecks are identified early on.

CENTRALIZED BID MANAGEMENT

A single platform for bid management is significant because it streamlines processes, centralizes data, and enhances collaboration to elevate the bidding experience. A single source of truth ensures easy access, reduces redundancy, and fosters a more unified understanding of bid details.

Centralized communication channels will enhance coordination, fostering a collaborative bidding environment that reduces delays. A unified platform also provides instant updates, enabling stakeholders to monitor bid statuses to make better decisions.

Automated notification systems keep stakeholders informed of critical updates. Timely notifications prevent oversights, improve responsiveness, and contribute to a transparent and error-free bid environment.

COMPARATIVE ANALYSIS OF CONTRACTOR BIDS

There are strategic techniques for the effective comparison and selection of contractor bids that ensure optimal outcomes and successful project partnerships. A few ways to perform a comparative analysis include:

- Establish clear bid evaluation criteria
- Implement a weighted scoring system
- Combine quantitative metrics with qualitative assessments
- Benchmark against industry standards
- Reference checks and past performance analysis

Bid analysis is also a crucial tool for mitigating risks and ensuring the success of projects. A systemic approach means both common and project-specific risks are recognized and acknowledged.

A strategic plan includes tasks like quantitative risk assessment, contractual risk allocation, and risk mitigation plans in bids. A retailer should evaluate bids that include clear and proactive risk mitigation plans and explore those with well-defined risk mitigation strategies.

CHAPTER 7: COMPLIANCE AND FINANCIAL AUDITING

NAVIGATING FINANCIAL AUDITS AND COMPLIANCE

It's wise to stay abreast of the ever-evolving regulatory landscape that governs retail real estate finances. Understanding commercial real estate regulations and standards ensures compliance and mitigates the risks associated with non-compliance.

It starts by gaining a thorough understanding of local, state, and federal regulations governing retail real estate. Navigate zoning and land use regulations specific to your potential acquisitions. Understand the implications of these laws on property development, use, and modifications.

The right retail real estate management system will audit-ready a business for monthly close. Features like automated reporting, cause-of-change reports, and extensive data integrations simplify the monthly close process. You can classify leases as operating or finance using a FASB ASC 842 test and create audit logs to achieve SOC compliance.

The retail real estate industry is heavily regulated, with strict standards for lease accounting and financial disclosure. Accruent's software solutions can help businesses ensure compliance with these regulations by supporting IFRS16 and ASC824 accounting standards and disclosure reporting.

PROACTIVE MANAGEMENT OF LEASE DATES AND RENEWALS

Dedicated lease management tools centralize lease information, key dates, and notification triggers, automating renewals, and ensuring you never miss a deadline.

Specialized software facilitates efficient tracking and comprehensive reporting for lease portfolios. Calendar integration can capture prominent lease events, and document management systems will store lease agreements. Customizable dashboards also display key lease dates and upcoming renewals.

Workflow automation promotes timely lease actions and approvals, simplifying the lease management process. Custom automation can trigger predefined workflows for lease renewals, ensuring a systematic and efficient approach. Renewal workflows can also facilitate timely negotiations, approvals, and communication with tenants to secure lease extensions.

RETAIL-FOCUSED LEASE MANAGEMENT

For retailers to continually innovate and optimize their footprint, they need a solution to help them drive their entire real estate and facilities lifecycle. This includes everything, from becoming FASB/IASB compliant to gaining revenue weeks back in site openings, and reducing maintenance spend down to the store level.

When it comes to lease administration, features and functions tailored for the enterprise retailer include:

Centralized Lease Database

Establish a centralized lease database to store and manage all lease-related information. A unified database will enhance data integrity, accessibility, and a holistic view of the entire lease portfolio.

Multi-Location Lease Management

Multi-location management capabilities enable a retailer to handle leases across diverse outlets. A system that can accommodate this volume will simplify administration and ensure consistency in lease management practices.

Lease Abstraction

Lease abstraction tools capture and summarize key provisions within leases (and corresponding documents) to facilitate a better understanding of the terms and conditions. Streamlining document management accelerates audits and ensures accessibility for compliance purposes.

Automated Processes

Lease management solutions incorporate automation for rent escalation calculations and adjustments. Automated processes can reduce manual errors, ensure accuracy in financial calculations, and streamline rent-related workflows.

Bidding Period Management

Set and manage automated timelines for the bidding period. This ensures potential tenants are aware of the timeframe for submitting bids, creating a more structured process.

ADDITIONAL LEASE MANAGEMENT SOLUTION FEATURES:

- Customizable lease terms and conditions and tailored lease agreements to specific retail needs
- Financial modeling and forecasting to calculate necessary accounting schedules
- Comprehensive reporting and analytics for in-depth insight into lease performance

SALES REPORTING AND RENT CALCULATIONS

Lease management software will also mechanize sales reporting and percentage rent calculations. It seamlessly integrates with various data sources, automating the collection of sales data.

Automatic updates ensure sales reports are generated in real-time, and customized reporting templates align with specific retailer needs. This also facilitates easy analysis and comparison with percent rent calculations.

Technology will automate percent rent calculations based on predefined formulas outlined in lease agreements. Adjustments to percentage rent calculations are reflected as per changes in sales data, providing accurate and up-to-date rent assessments.

Automated calculation algorithms within lease management software are also built in to handle diverse alternate rent conditions. You can configure a system to dynamically calculate rents based on changes in conditions, streamlining the entire process and minimizing manual errors.

CHAPTER 9: CONCLUSION AND FUTURE OUTLOOK

SUMMARIZING KEY STRATEGIES FOR 2024

The best practices for retail real estate management emphasize the importance of integration, data-driven decisions, and compliance. A robust, retail real estate lifecycle encompasses transactions, automates processes, and enables trackability and accountability for how these processes happen. This limits your exposure to risk and potential errors.

It's easy to provide insights through a single lens, and that starts with consolidating every source of data within the retail real estate lifecycle. This may involve intuitive dashboards and colorful visualizations, but the main takeaway is that everyone has a deeper understanding of what's going on and can make better decisions because of it.

Some key strategies include:

- Data-driven decision-making, analyzing sales data and customer behavior
- Align lease offerings with the preferences and demographics of the target customer base
- Implement a PM system, IoT devices, and automated processes to enhance efficiency
- Prioritize proactive maintenance to create a safe and welcoming environment

ANTICIPATING THE ROAD AHEAD

Retail asset and lifecycle management software is evolving, whether that's through installing smart thermometers or lease management software. This can be used to operate assets more efficiently, make more informed decisions, and gain a competitive advantage.

The retail real estate sector continues to evolve, as retail performance comes back to life after the pandemic. Store openings outpaced store closings in 2023,[7] despite weaker retailers falling by the wayside. As the inflation rate continues to ease and we see a moderation in energy prices, better retailers in greater locations, offering top-of-the-line services, will continue to displace and absorb their weaker counterparts.

In the dynamic landscape of retail, where adaptability is key, embracing the right technology is imperative. As you apply the strategies outlined in this eBook, consider them not as individual components, but as interconnected elements unlocking the full potential of your retail real estate and facilities management.

[7]https://money.usnews.com/investing/articles/the-commercial-real-estate-outlook

WHAT'S THE SOLUTION?

Effective retail real estate management in a shifting market can be summarized with the following solutions:

Digital Transformation and Adoption

Retailers must embrace digital transformation to enhance the customer experience and streamline operations. The right technology will help a business stay agile and meet the ever-changing expectations of modern consumers.

Maximizing Retail Space

Accelerate leasing revenue by opening new locations quicker, using the right technology. You can utilize market analysis, real estate site planning, and advanced site selection tools to identify optimal locations.

Streamlining Data Management

Consolidate all retail real estate data into a single source to facilitate smarter, data-driven decision-making. Implement unified solutions for real estate, project management, finance, and facilities.

Holistic Approach

Take a holistic approach to optimizing the retail facilities and asset management lifecycle. Focus on strategic decision-making, lease management, compliance, and expense control.

HOW ACCRUENT HELPS

Accruent delivers an integrated suite of solutions tailored for retailers to manage the entire retail real estate lifecycle effectively. Our products are purpose-built for retail to address contemporary challenges, enabling retailers to enhance efficiency, reduce costs, and maximize profitability.

These solutions include:

ACCRUENT LUCERNEX

Streamline Real Estate Management

Lucernex, Accruent's comprehensive real estate management solution, provides retailers with a centralized platform to manage the full real estate lifecycle. This includes portfolio optimization, transaction management, lease administration, and space management, enabling retailers to make informed decisions and optimize their real estate investments.

ACCRUENT OBSERVE

Enhance Visibility and Control

Accruent Observe enables retailers to connect, monitor, predict, and control multiple equipment types across their facilities. This real-time visibility empowers them to optimize maintenance and energy efficiency, improve air quality, maximize employee wellness, and preserve the health of commercial refrigeration systems.

ACCRUENT OBSERVE | energy management

Achieve Energy Efficiency and Sustainability Goals

Accruent Observe for Energy Management (AOEM) empowers retailers to analyze and act upon critical energy consumption needs and metrics. This includes energy usage monitoring, benchmarking, and anomaly detection, enabling retailers to fight energy surges, control volatile costs, and meet sustainability goals.

ServiceChannel

Gain Peace of Mind with Peak Facility Performance

ServiceChannel is a facilities management platform aiding retailers in streamlining operations, enhancing asset performance and optimizing maintenance processes. With a centralized system for facility, asset, and maintenance management, ServiceChannel enables retailers to enhance visibility, make more informed decisions, and attain operational goals.

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