

Retail Leasing in a Web Enabled World

Executive Summary. *As retail marketing through the Internet expands, traditional retail showrooms will take on new roles in the collection of data for use in direct marketing efforts. How will successful property managers take advantage of total connectivity to assist tenants with the new modes of marketing? In addition, how will leasing agents and owners value physical space when many sales are redirected through other modes of marketing and distribution? These questions are addressed in this article with some speculation on how real estate owners will measure and capture the true value of physical retail space.*

by Norman G. Miller*

Introduction

As of 1999, the retail real estate industry is doing well with strong leasing activity and increasing rents. So why is everyone concerned about Internet-based sales? The reason is that none of us knows very well how fast this neophyte segment of the market can grow or to what depth the market share might reach in long-term equilibrium. Any retail property owner that is not concerned about the impact of web-based marketing is kidding themselves.

Internet-based marketing has become known as "e-commerce," one of many new words invented in recent years. Another recent term for e-commerce is "e-tailing." Those of us paying attention to the new media in the last few years know that previously optimistic e-commerce growth expectations have started to become reality. Firms like Amazon.com are proving that consumer demand can be supplied entirely through cyberspace media. Before Amazon.com existed, direct marketing accounted for some 12% of all consumer sales, mostly through catalogs and television based home shopping shows. Firms like J. C. Penny and Sears led the way in terms of direct marketing through catalog sales several decades ago to help capture demand from the geographically under-served and smaller markets. Others followed with more specialized product lines and today, The Gap, L. L. Bean, Lands End, Victoria's Secret and others are starting to transform some of their catalog sales into web-based sales.¹ Even traditional retailers like Nordstroms, Macy's and others are now starting to take orders via the web. Web-based marketing will continue to grow as a natural outreach for larger retailers leveraging off of their traditional

*University of Cincinnati, Cincinnati, OH 45221-0195 or millernn@email.uc.edu.

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instant gratification showrooms.² Internet-based sales could easily reach 25% to 30% of the total retail market over the next few decades.³ So what is the problem?

The Problem for Physical Retail Space Owners and Managers

The multiple ways to disseminate product and pricing information presents a dilemma for the providers of physical space. Rent is a function of productivity, and productivity has typically been measured through sales per square foot. But the true productivity of a retail location will no longer be a function of only sales within leased physical space per unit of time. In the future, productivity and value must be a function of how that site enables the retailer to be more successful in serving customers independent of where and how they are served. Unless real estate owners can envision a process to measure retail site value in a world of both physical and virtual retail space, they will have no basis upon which to levy profit maximizing rental rates.

What Types of Products and Services Are Most Susceptible to Web-Based Marketing?

This question can be addressed from two directions, from the demand side or the supply side. Both perspectives are essential in order to fully comprehend the potential for web based retail marketing.

The Consumer Side. "In the not too distant future, we believe the fourth quarter shopping season of 1998 will be remembered as the time online shopping reached critical mass," stated Zona, a subsidiary of IntelliQuest. Zona research indicated per-capita spending by the 50-54 age block grew a stunning 545%, jumping to \$626 from \$97 last year.⁴

There are several sources of demand that are uniquely suited to e-commerce. These include:

1. **Demand aggregation.** Serving those consumers who desire products that have small local

demand requiring a national or global market for efficient production and distribution. For example, people with very thin feet find it difficult to find casual shoes.⁵ While carrying inventory of unusually thin casual shoes makes no sense for a small local store, it does become economically worthwhile when such consumer demand can be aggregated and served through a larger scale vendor. The web, like catalogs, enables scale escalation by aggregating demand for such niche products.

2. **Convenience and laziness.** Time and access drives web demand. Stated another way, the web is more convenient with 24 hour availability. When weather is bad or stores are far away, consumers may turn to the machines in their homes that allow convenient retail ordering.⁶ The time-starved-shopper may need to baby sit, work at home, or shop at odd hours finds the web convenient. It simply takes less time to order through e-commerce than it does to drive to various stores, park, search, then wait in queues to buy and return home.⁷

Another aspect of convenience-driven demand is the repeat order customer. One of the major concerns of many shoppers is that the quality of online or catalog products is unknown. However, once a product has been purchased from a traditional retail vendor the quality concern is eliminated and the buyer more likely to consider the convenience of repeat orders via e-commerce. The types of products well suited to repeat orders include sports equipment, clothing, office supplies and most consumer durable goods.

3. **Customized demand.** It can be served with the ability to store unique customer requirements, preferences and measurements. Retail stores have the ability to capture information about customer preferences through knowledgeable sales clerks with the ability to take physical measurements.⁸ A person who has had their body measured and preferences recorded may be in the market for ski boots, mountain bikes, jeans, tuxedo, shirt or helmet at a later date. The vendor who records this information in a centralized computer data bank will be able to provide follow-up services without necessarily

repeating the face-to-face meeting. Cheap customer communication, email reminders along with the pleasures of personalized products at reasonable prices make the customized market a natural fit for combined retail shop and web-based marketing.

4. **Information.** Consumers seeking information can be served better through web-driven expert system menus than in most retail stores. In an age where management drives labor cost to the level of minimal service, businesses cannot afford to train and staff retail stores with knowledgeable sales staff. Yet, information starved consumers will love some of the personalized advice available from web pages providing education, information and advice prior to product purchase. For example, Clinique's website at www.clinique.com asks a series of questions about age, skin tone, sun tanning attributes and so on in order to develop a customer profile and to provide suggestions of the best cosmetics for each customer.⁹ Such advice can be provided by trained sales staff, but training the staff costs far more than using experts to develop an information database that is accessible to everyone.
5. **Value-oriented buyer.** This type of person presents another source of web-based demand. Web-based marketing has the same advantage as all direct marketing in that most states currently forgive sales taxes on "out-of-state" purchases. The sales tax savings almost makes up for the added transport cost that is charged with all shipped merchandise. In web-based marketing, like other direct marketing, the inventory is kept in warehouses where rents run approximately one-half to one-fifth the rental rates in shopping malls. Less inventory is required per sale as a result of market aggregation and lower rents are paid for bulk warehouses allowing a lower product cost mark up.¹⁰ Therefore the price sensitive consumer will often find savings of from 10% to 50% through Internet vendors.¹¹ In many ways, the Internet is an ideal medium for retail price discrimination. Electronic coupons and clearance specials can be offered via email to the price sensitive shopper needing additional inducement to buy, while new merchandise lines and higher quality

products can be promoted to the quality or more fashion-oriented buyer.

There are and will always be sources of demand not well suited to the web, where quality is difficult to judge. New products and fashions (e.g., furs and bathing suits) are examples of products that are not that well suited. Some people also find it hard to take delivery of web-based orders.¹² Others need the product immediately, and there are people who shop, not for the merchandise, but for the social and entertaining aspects of a visit to the mall who will find e-commerce less than satisfying. Retailers are fighting back with education, entertainment and stimulating environments as part of the consumption bundle provided with the merchandise. Some day the retail sales associate might also be trained to advise the consumer.¹³

The Web Supply Side. According to a recent study by Ernst and Young, the proportion of retailers selling to consumers over the Internet tripled during 1998 from 12% to 39%.¹⁴ As there are consumers more amenable to e-commerce, there are some products well suited to web-initiated distribution from local, regional, national or even global distribution centers. These include products with known quality, homogeneity, digital content, highly customized products, low shipping costs, thin markets and non-perishables as briefly discussed below.

1. Products that are of known quality, such as popular brand names, are more amenable to web-based marketing than new product lines from lesser-known manufacturers. Strong brand names are trusted by the consumer. Brand name awareness is developed through various media promotions, visual displays, as well as past purchases and word-of-mouth. Thus, product lines from established national or international brands have a great advantage over localized manufacturers with respect to inducing consumer purchases.
2. Homogeneous products like books, music CD's and software can be sold without quality concerns and are well suited to any form of direct marketing. Products that can be delivered electronically with content that can be digitized are especially ripe for e-commerce, saving the vendor money on packaging costs, shipping costs

and providing instant gratification. Products that fit into this category include music, videos, newsletters, software and even electronic books.¹⁵ On the other hand, products that require personal inspection, such as fruit and vegetables, fur coats, antiques, are more difficult to judge without three dimensional inspection and touch and are less suited to e-commerce, yet some vendors are attempting to serve such markets.¹⁶

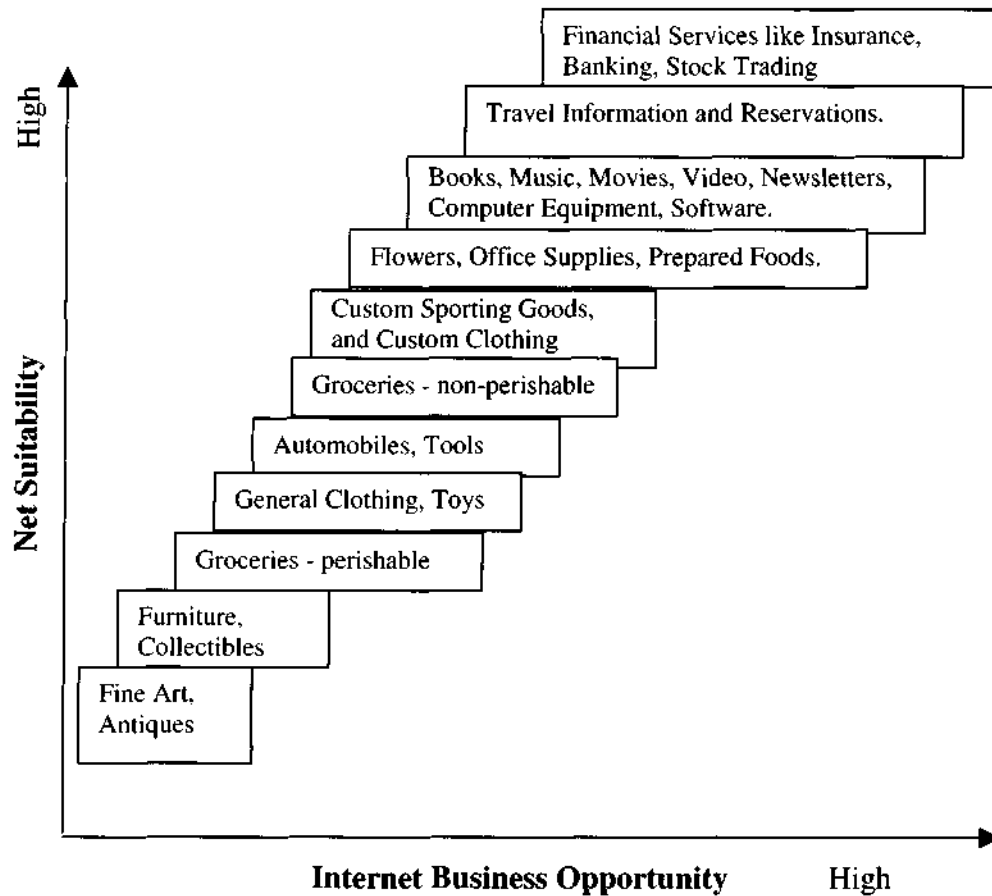
3. Unique products are perfect for Internet marketing. Unique products with thin markets find the Internet an ideal method to aggregate and serve potential demand. For example, a mountain hiking equipment producer might develop an information newsletter to inform enthusiasts about events and new technologies, while using the information link to subtly promote its own products. A high quality equipment producer may not be able to afford to stock showrooms in too many local markets but the focused interest groups already established on the web gives the producer an efficient way of reaching enough consumers to have a chance at survival. The web has spawned many unique product vendors, from salsa to baby gifts that previously could not aggregate the potential community of purchasers so efficiently.
4. Highly customized products such as dress shirts can also be marketed through the web. Producers in Thailand or China can send waves of tailors on measuring trips into the wealthy industrialized nations where quick promotions and samples are used to sell custom-made shirts at off-the-shelf prices. Email communications and a website are then used to try and maintain interest and induce repeat orders. Similarly, retail showrooms like American-based custom shops could use the local shops to measure people and then use email to follow up with customers' data profiles captured in a centralized computer database.
5. Just as the value-oriented shopper may select web-marketed goods above instant gratification, vendors are attracted by the lower cost of marketing. By eliminating middle marketers, firms like Amazon.com and Dell computer are able to sell merchandise for lower prices. Just as middle management, the communication conduits of business before the information age, has been

eliminated in the 1990s, retailers that perform mostly a brokerage role are not essential for all product types. Certainly, stock trading services, insurance purchases and travel reservations can be accommodated by the sophisticated consumer without the aid of an intermediary. By eliminating intermediaries, retail manufacturers can eliminate an entire level of marketing and distribution expense.

6. Goods that require refrigeration tend to have high transport costs and are less amenable to e-commerce, although this is rapidly changing. Grocery stores, such as Peapod.com, Webvan.com, Streamline.com and HomeRun.com and many others are finding a market not only for the non-perishable goods like rice, flour and cereals, but also for the perishable goods.¹⁷ Consumers are asked to allow installation of an outdoor or garage-based refrigerator box where perishable goods are delivered. Delivery runs about 5% of the purchase and some firms require a monthly membership fee, however as order sizes increase the fees will become absorbed in the merchandise price.¹⁸ The delivery service often includes dry cleaning, videos, film processing and other incidentals adding efficiency to the process. As combined delivery systems improve and storage devices become standard in the American home (often within an electronically controlled garage that the delivery service has been provided access to) the delivery service competition will increase and transport costs will decrease. This will, in turn, expand the breadth of possible goods sold through the Internet. On some of the web-based grocery chains, the average fruit or vegetable from the current shipment is shown to the consumer and in most cases, generic products are compared to brand name products. When selecting a basket of items, the consumer can compare cost, nutritional values from label information, calories and even ask for menu or recipe planning help. This personal assistance is more than any consumer typically expects from the local grocer, but they will.

Exhibit 1 provides a simple way of viewing the mix of potential goods that might be marketed via the Internet, email, computer-TV or other e-commerce vehicles. While there is a "high" scale on each axis,

Exhibit 1 Current Web Retailing Sweet Spots



Source: Adapted Kotkin (1998). It is interesting to note that even though fine art and antiques are near the bottom of the sweet spot chart, Sotheby's, the famous auctioneer retailer has announced it will soon launch a website and expand auctions to on-line clients and E-bay has made a big web entrance as the auctioneer of anything. See ebay.com.

there is no "low." This is because practically all goods can be promoted on the Internet and some goods like perishable foods, once thought to be the domain of the personal grocery cart and a quick scamper to the home refrigerator, are now becoming part of the product line now amenable to web-based marketing. Some day our grandchildren will not know how we survived without the dry-cleaning, video, film processing, grocery, magazine and hot pizza delivery services that caters to our ever-changing desires.

What Does E-Commerce Mean for Retailers?

E-commerce has brought problems and opportunities. It has meant a dramatic increase in direct

marketing. Retailers with strong brand identities, like Eddie Bauer, Victoria's Secret, Talbots, Ann Taylor, Banana Republic, J. Crew, The Gap, Abercrombie and Fitch, The Sharper Image to name a few, are now rethinking the need to be near traditional anchor department stores. Such tenants need to be convinced that the shopping mall is pulling in much more traffic than the retailer would be able to generate as a solo operation. There is no reason to pay percentage rents unless high sales per square foot can be linked back to mall-generated business.

Retail product manufacturers are rethinking distribution channels with the goal of reducing inventories and storage costs. Distribution costs are being reduced as some of this cost has been

transferred to the consumer who is now willing to pay the shipping cost in exchange for lower prices and fewer sales taxes. The control of product means that manufacturers are in the driver's seat with more influence over distribution, similar to movie producers who determine movie allocations and ticket prices. Pure intermediary type vendors will need to be creative in order to capture sufficient consumer demand that manufacturers are not tempted to circumvent their physical and cyberspace showrooms in favor of direct marketing.

Manufacturers and retailers are looking at their "expensive" showroom space in new ways, and asking the question, "What is the advantage of physical compared to virtual space?" The answer is that physical space allows the following:

1. Instant consumer gratification.
2. The introduction of new products.
3. Visual presentations that enhance the appeal of the product through contextual-based marketing where combinations of products are mixed or illustrated.
4. Consumer examination and testing of product quality.
5. Relationship building through sales staff acting as personal shopping advisers.¹⁹
6. Consumer profile information collection through interviews, forms, observation and purchase pattern analysis.
7. Cross marketing or retail bundling where consumers can be directed towards complimentary merchandise purchases.²⁰
8. "Back room" or kiosk sales where consumers can place orders with the assistance of a sales person through an in-house Internet or intranet link avoiding percentage sales while capturing consumer data.²¹
9. Information assistance through computer-driven information kiosks that can be placed throughout the physical space to assist consumers with finding merchandise and with advertisements from the manufacturer whose products are carried in the stores.²²

The first four items in the list are traditional functions of physical space, the fifth has always been possible, but only implemented by a few retailers,

and the remainder of the list has only been possible since the integration of physical space with virtual space and total connectivity, or more simply "meta-space."²³

Retailers as Data Capture Sites

Among the list of physical site advantages, none are more important than the last, the collection of consumer data allowing micro-targeted marketing. The type of consumer data that the retailer might collect includes, but is not limited to:

- Name, approximate age, gender, address, telephone number, email address.
- Spouse's name, children's names and ages of all.
- Occupation and place of work.
- Physical data including height, weight and measurements.
- Preferences in terms of colors, styles, materials, sizes and shapes.
- Educational background, travel interests and hobbies.
- Purchase patterns, combinations of goods purchased, price and quality level.
- Affinity for sales or quality, interest in the new product lines.

Imagine how powerful such a database becomes over time as market research experts mine and explore new ways to directly appeal to each shopper. Customers can be informed (through email-driven websites or postcards) when new products are available that are likely to appeal to them, their kids or spouse, reminded of birth dates, anniversaries and other purchase inducing events. Broad-based marketing is replaced with efficient micro-marketing, informative newsletters and entertaining product comparisons and tips, and at the same time, more sales are channeled to the warehouse, never appearing on the sales records of the local showroom. In *One-To-One Marketing*, Peppers and Rogers proclaim the business goal of serving as many of the needs of each client as possible. The idea is to lower the cost of sales and serve a greater share of each customer's needs.²⁴

Clearly, some web retailers will succeed by aggregating various goods and services that serve the same customer.²⁵

Web Enhanced Smart Shopping Centers: On Site and Still On Line

Shopping centers can harness the power of a connected world for the retailers within their centers. Many shopping centers have websites as noted in the references. As of late 1999, typical shopping center websites provide information on the center location, a store directory and special promotions. These sites do not provide the type of sales power that is possible with a little additional effort. Someday progressive shopping center managers will provide a variety of resources that are designed to enhance the shopping experience, reward loyal shoppers and encourage cross tenant patronage. Consider the following examples:

- **The preferred/frequent customer card.**²⁶

Such a card provides rewards to customers whom patronize the malls owned and operated by a particular manager.²⁷ Such a card may provide gifts and prizes to customers that patronize a certain minimum number of retail shops within a given mall. For example, the shopping center issues a plastic magnetic card to all customers who stop by the information kiosk and provide information on themselves—name, address, email, age, gender and so on. Then whenever the customer makes a purchase, they ask the cashier to swipe the card into a machine that verifies the sale to the shopping center. Not only does this result in being able to track customer preferences and shopping patterns, but it also provides an electronic record of the impact of a card or other special promotions on each retail store's sales. The shopping center can build and use the customer database to promote mall wide specials or work with various tenants to coordinate promotions, new merchandise launches and special sales.

- **The personal shopping assistant.** Customers might tap into the web prior to a shopping trip and list the items that they are interested in searching. The mall website might map out an

efficient path for the shopper, alert them to sales and specials, and even provide tips on developing a coordinated wardrobe, designing a new set of interior decorations, stocking a new kitchen, buying for a recreational vacation, and so on. Education, information and advice can be imbedded in a number of links that larger retailers and mall managers will use to enhance the shopping experience and encourage repeat visits.²⁸

- **The information kiosks.** Internet-linked information centers can be provided in public walkways, restaurants, and within the larger retail shops. Imagine a food court that has several web-connected monitors placed under small café sized glass tables where patrons grab a cappuccino or snack. With either voice commands or a pressure type mouse pad on the table the personalized monitor will greet the customer, take their food order placed directed to any of the food court vendors and ask the patron to enter their shopper ID card if they have one. If they do not, they can apply at the information center and then eliminate the need to carry money for food or shopping at participating merchants who join together under a credit or cash debit system. The café table monitor speaker will ask the patron if they need directions, a list of sales or other information on any specific type of merchandise. When the center at hand does not have what the shopper seeks, the information provided will steer the customer to other mall tenants operated by the same manager.

- **Instant discount coupons.** As a way to monitor the effectiveness of a website, web surfers are offered instant coupons based on an identification number provided on the web that the customer uses on arrival at the shopping center. Typically at the information desk the customer can input this number and receive their discount coupons for selected merchants and a plastic visitor card for additional prizes. Such methods help to encourage physical shopping as opposed to cyber shopping.

Physical space provides the opportunity for much more than instant gratification, socializing and entertainment. The key to successful physical space retailing will be the ability to help steer the future

shopping patterns of the customer, be they in physical or cyberspace, and to internalize the economic externalities from consumer information gathering that impact future purchase behavior.

The Value of a Shopping Center

In mid 1996, a *Shopping Center Today* article announced that the web was too slow to be a threat to regional shopping malls (Mander, 1996). Wheaton (1996) also missed the mark when he suggested that Internet sales would primarily replace direct sales from catalog type buyers. Neither anticipated the success of the new media of e-commerce now affecting the distribution of sales across space. In contrast, Roulac (1996) suggests that control of physical shopping center buildings no longer implies control of the retail market. However, there are still advantages of physical space retailing that indirectly result in retail sales productivity whether they occur through a website or a catalog or any other means. It is up to the shopping center landlord to figure out how to measure and capture some of this indirect productivity.

The Traditional Rent Model

The objective of the landlord is assumed to be the maximization of value through maximizing rental collections. At the same time, the landlord understands that a fixed minimum base rent that is too high is risky for the tenant. A percentage of sales rent or "overage" allows the tenant to lower solvency risk but share with the landlord when sales exceed minimum expectations. Additional rationale for the percentage rent is to provide the landlord incentives that align with the tenant's interest. The landlord/manager is rewarded for a good mall design, rehab, tenant mix, landscaping, cleanliness, friendly environment, entertainment, and general mall promotions and events that help to increase consumer traffic.

Traditional valuation models are based on discounted rental flows, plus some residual value in the future. The rental flow component can be valued separately as the present value of expected rental payments over time including a base rent and a percentage overage component. Benjamin,

Boyle and Sirmans (1990) provide the following model that both calculates rent and discounts the rent into a present value:

$$L = \sum_{t=1}^n R(1 + ESCL)_t / (1 + r)^t + \sum_{t=1}^n \alpha D_t (S_t - S^*) / (1 + r)^t, \quad (1)$$

where:

L = The present value of the future rent collections from all sources and over the term of the lease;

R = The base rent for year t ;

$ESCL$ = The escalation percentage for period t ;

r = The nominal interest rate;

α = The percentage overage applied to sales, S each year t , above the break point, S^* ;

n = The lease term; and

$D = 1$ if $S_t > S^*$, zero otherwise, effectively providing for only positive percentage rent.

In an empirical test of the above model, Benjamin, Boyle and Sirmans (1990) find support for their hypothesis that base rents are lower for tenants that are charged a higher percentage of sales. This is consistent with the notion that anchor tenants, who draw much of the consumer traffic into a center, pay lower fixed base rents with no overage rent as a tradeoff for the traffic externality provided to other tenants. Brueckner (1993) formally extends this model with a discussion on store externalities. Stores that attract more consumer traffic will receive lower rents in general and pay less in percentage rents as well. Wheaton (1999) suggests that to fully align the interests of the landlord and the tenant the leases should become as fully as possible based on percentage rents. However, financing considerations are improved with a known predictable base rent. A minimum base rent also serves to help drive out poor performing tenants who do not provide sufficient sales to provide reasonably projected minimum rents from alternative tenants.²⁹ To achieve the financing needs, retain the ability to push out lower productivity tenants, and partially align the interests of the tenant and

landlord we are left with a fixed base rent plus a percentage rent for those tenants capturing the externality of consumer traffic generated by other tenants or the mall itself.³⁰

Factors that influence rental contract rates and percentage rents include the degree of customer attraction the tenant provides. Anchors are important as traffic generators and such tenants pay little if any percentage rent from sales. Non-anchors pay fixed base rents plus a percentage rent that is based on the sales intensity per unit of space and the estimated profit margin of the particular merchandise or service. These considerations will still matter in the future, but the new rent model must be driven by new measures of productivity. The key assumption behind the traditional rent model was that individual store productivity can be measured through sales per occupied space per period of time. This assumption is no longer valid and a new model must evolve that considers new measures of productivity.

The New Rent Model

The objective remains the same for the landlord, to maximize the rent and value of the shopping center, but the measures of productivity must change. Unless landlords change the models for calculating percentage rents, retailers have a huge incentive to channel as much business as possible to their off site distribution centers. The retail store will become a showroom that provides information on new products but attempts to direct the consumer into buying from modes that circumvent the measurement of in-house store sales. National retailers will attempt to gather as much information as possible on potential customers through their retail store showroom sites and try and cultivate targeted clients groups. In this regard, new customers are more valuable than repeat customers. With repeat customers, already in the database, the marginal value of information added to the existing customer profile will tend to be less valuable for generating new sales than an entirely new customer file. Retail sales generating ability for a particular store will be a function of the sales served in-house as well as externally through websites, emails, catalogs, phone orders and so on. Nothing will be more important to the forward

thinking retailer than capturing potential customer profile data, and sales associates will be trained to serve this mission.

But how does a landlord measure the value of showroom store space when sales might occur now or later from a multitude of optional ordering methods? The answer is that new measures of productivity must be invented. Ideal measurements will be simple, automated, verifiable and correlate well with potential sales. No doubt the measurements discussed will seem naïve, if not primitive, several years from now, but they serve to illustrate the likely direction of tenant productivity measurement.

Total rent per period t equals = TR_t , so that:

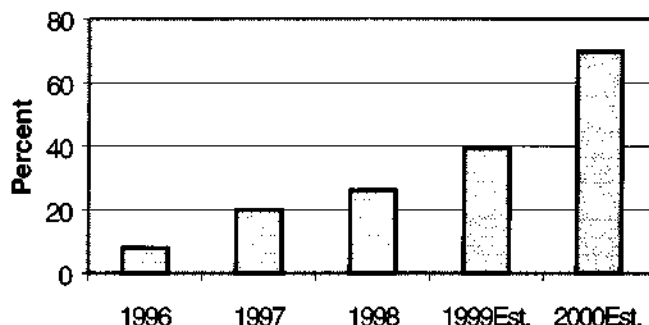
$$TR_t = \alpha_t + \beta_t + \chi_t \quad (2)$$

Where α is the base rent, BR for each period t , plus the percentage rent, PR , from direct store sales, calculated the same as in Equation (1) when sales exceed the break point S^* .

$$\alpha_t = BR_t + PR_t \quad (3)$$

β equals the rent based on expected productivity of the store as generated through direct consumer contact and interaction with the retailer. The rent charge will be based on a small monetary charge per contact factor (see Exhibit 3). This charge

Exhibit 2
Percentage of Retailers with an Internet Site



See Holstein, Thomas and Vogelstein (1998:45). 1999 and 2000 Estimates are from the author. 1998 e-commerce dollars go 30.1% to computer related items, 29.6% to travel, 9.2% to books, and 31.1% to other. Source of 1996-1998 estimates: National Retail Federation.

Exhibit 3

Illustrative Measures of β : Non-In-House Sale Store Productivity

Factor Measured	How Measured	Comment
New first time customers in the local store database.	The shopping center information system requires daily sales reports and standardized customer numbers, perhaps using customer email addresses or last names with first initial and phone numbers or some unique customer tag required at sales check out.	Both percentage sales rent and β rent are calculated. Shopping centers can encourage tenants to report email addresses for use in mall promotional communications and reward the tenants providing fastidious reporting with discounts on this rental charge. New data on new customers to the mall might be rewarded with rental rebates to the tenant.
Number of customers that pass through the store entrance each month.	A simple counting mechanism at the entrance of the store can count people entering/leaving.	Some customers will merely look over merchandise, or allow a sales associate to enter their current search objectives in a database without a current sale, and then order through Internet sales sites at lower prices. Some error is to be expected and some of those entering/leaving will be employees, so a break point count might be determined based on the number of employees in the store where only the number above the break point count results in rent.

might be fractions of a cent but cumulatively could be significant. Last χ equals the rent charge for contacts channeled from centralized shopping center resources (see Exhibit 4). Again, a very small charge per factor measured provides the additional rental charge.

Illustrative Monthly Rent Calculation

Recall the general formula: $TR_t = \alpha_t + \beta_t + \chi_t$.

Assume the base rent is \$22.50 per square foot per year, plus 5% of all sales above \$50,000 per month. The tenant occupies 2,500 square feet, so the monthly base rent is \$4,687.50 plus common area maintenance. Sales were \$65,000 this past month so the percentage rent is \$750.00. Additional β , rental charges are as follows: \$2.50 dollar per first time customer and 10 cents per half the physical customer count passing through the retail entrance per month exceeding 7,500. Assume 73 new customers and a store pass count of 18,500 resulting in:

$$73 * \$2.50 + (18,500/2 - 7,500) * .10 \\ \text{or } \$182.50 + \$175 = \$357.50 \text{ for } \beta_t \text{ rent.}$$

Additional χ rental charges are .02 per web hit and .03 from all sales related to a special visitor-shopping card. Assume web hits of 25 per day, 30 days for month t directed at the tenant resulting

in $750 \times .02$ or \$15. Assume that \$6,900 is sales resulted from the special visitor card, so .03 times \$6,900 is \$207. χ rent is thus \$222. The total of all rental charges prior to common area charges is: \$4,687.50 + \$750.00 or \$5,437.50 for α_t rent, \$357.50 for β_t rent and \$222 for χ_t rent. The total rent is \$6,017.00 for month t .

Too complicated? Perhaps so! Perhaps a simple model that is based only upon foot traffic will be the first step. The problem, however, is that the percentage rent will decline over time and productivity measures like those in β and χ factors are necessary for a landlord to try and capture the real value of a retail store within a given shopping center. A number of rental models might be as good or better than the one proposed here, but progressive property owners will start thinking about such models soon or face erosion in their percentage rent charges, based on the general factors shown in Exhibit 5.

Some Speculation on Percentage Rents in the Absence of a New Rent Model

Internet sales, while growing fast, are still a small fraction of total retail sales. As such, they are not an immediate threat to retail property rental revenue streams. With a 66% growth rate in Internet sales and a 4% growth rate in total retail sales, the same store sales should grow at about 3.5%, representing a 12.5% reduction in the overall same

Exhibit 4

Possible Measures of χ : Productivity Channeled to Retailer from Shopping Center Resources

Factor Measured	How Measured	Comment
Web hits directed to tenant's website.	Shopping center websites will be monitored for hits on the tenant's page as well as the path and time spent on each page. Some hits will be random and extraneous, so emphasis might be placed on those web information kiosks provided by the shopping center in restaurants and public areas within a specified distance of the tenant.	Shopping centers will all have websites and provide information such as directions to tenants' locations, special promotions and sales, and tenants with certain types of merchandise. Shopping centers can aid the process of cross tenant marketing. Hits can be monitored with software like Personify or others. ^a
Sales resulting from a general shopping center promotional card.	Loyalty enhancing cards that award customers with gifts/ awards will encourage customers to provide a plastic magnetic information card to retailers that automatically becomes reported to the shopping center central information system.	Shopping centers can use various types of visitor cards to have a means to track and reward consumers for favoring both specific centers and specific tenants.

^aWeb tracking or "clickstream" monitoring as it is called is handled by software such as Personify, software based in San Francisco. Personify drives sales, leads and customer loyalty by enabling companies to leverage the web's interactivity and immediacy as a marketing medium. Using Personify's point-and-click interface, marketers can analyze what makes customers click, identify best prospects, and measure return on advertising and content investments. Such findings then can be leveraged into targeted content, promotions and transactions, which Personify's software adapts in real time to the person at the other end of the wire. The result is data-driven marketing with unprecedented relevance and efficiency.

Exhibit 5

Evolution of Retail Rental Contract Models

Old Rental Determinant Factors	Future Rental Determinant Factors
Sales levels per space occupied per unit of time.	Direct store sales per space per unit of time.
Profit margin of merchandise sold.	External retail sales as channeled through back room web orders and web-driven marketing delivered from centralized warehouses.
Anchor role—degree of consumer attraction.	Future external sales as generated by consumer profile data captured, especially potential new customers identified.
	Anchor role—ability of retail store to attract new customers, with emphasis on the neophyte visitor.
	Anchor role—ability of store to generate consumer traffic that shop at other stores.
	Profit margin of merchandise sold.

store sales over five years (Hemel and Schmidt, 1999). The implication is that rents will continue to rise but at a decreasing rate. Most of the decline in potential rental revenue will come through a reduction in percentage rents. Since percentage rents typically represent about 8% to 10% of the total rent collected by regional malls a substantial reduction in this component will significantly hurt property values.³¹ Three possible scenarios are provided.

Extremely Modest Internet Impact. Say a store has a rental break point sale at \$250 per square foot per year and pays 5% in percentage rents when sales exceed \$250 and a base rent of \$30 per square foot per year. Now assume that sales are currently at exactly \$250 and grow at 3.5% per year, while total retail stores for this vendor (at both the national and local level) grow at 4% per year when Internet sales are included. After five years, the sales would have been at \$304.16 per

square foot if all sales occurred within the physical store, creating a percentage rent of \$2.71 per square foot. The total rent would be \$30 plus \$2.71. Now, with physical in store sales growing at 3.5% instead, the percentage rent will be \$296.92 less \$250 times 5% or \$2.35. Thus, the percentage rent will decline by 13.4% relative to sales in the absence of the Internet (ignoring other forms of direct marketing for the moment). Yet, the impact on total rent will still be very small, only 1.1% in this case, unless stores aggressively push sales towards the Internet through "back room" or kiosk orders.

Modest Internet Impact. Take this same scenario above and allow the Internet to capture up to 30% of the growth in total retail sales and go out ten years and the result is more painful for property owners. In this case, the percentage rent would be \$6.00 if all sales occurred within the store and \$3.98 with 30% of the growth in sales captured by the Internet. This represents a 34% reduction in the collection of percentage rent yet still implies only a 4.4% decline in the total rent collected, still with positive rental growth.

Add to the above assumption another factor influencing total store sales, returns from Internet purchases. Many consumers are now finding retailers *encouraging them to return merchandise bought through the Internet to physical stores*. Consumers save postage costs and often buy substitute merchandise. However, it is likely that many stores with friendly return policies will see an increase in returns.³² Returns have been traditionally subtracted from sales prior to deriving percentage rents, but if these returns are not from the local tenant then the impact is a windfall rental savings for tenants.³³

Neither of the prior scenarios implores landlords to panic over the growth in Internet sales, or merchandise returns, and the reason is that we are assuming that the Internet sales will primarily cut into the growth of total sales not reduce the sales. But the longer-term impact could be much greater, and some retail tenants are more susceptible to e-commerce than others.

Substantial Internet Impact over the Long Run. Assume that Internet sales for a typical tenant grow

from approximately 1% of total retail sales in 1998 until they reach 26% of total retail sales after twenty years. Meanwhile total retail sales for this successful tenant grew by 4% a year. After twenty years, total sales are 219 % of current sales, yet same store sales grew from \$250 per square foot to \$410.62, while they would have been \$547.50 if they occurred within only the physical space. Certainly, the base rent would have increased over this period. It is impossible to know exactly what the loss in percentage rents might have been, but the total base rent and percentage rent could be as much as 25% lower, if the sole measurement of store productivity is based only on in-store sales.³⁴ Similarly, property values will be lower by the same proportion or more (if a greater Internet share is expected beyond twenty years) unless new rental models are developed.

Consumer Behavior: Exacerbating the Problem by Exploiting Physical Space and Avoiding Sales Taxes

It is impossible to know exactly what percentage of retail sales will move to on-line distribution channels over the next few decades. Unless states move to levy sales taxes on such sales, the growth rate will be considerably faster from high sales tax areas like New York City. At the same time, there will be consumers who will go shopping in physical space while ordering from cyberspace. Baen (1999) suggests that consumers will carry hand held merchandise bar code scanners that retailers now provide to customers that are putting together shopping wish lists for weddings and such. Imagine now a similar scanner with a built in computer, web browser and cell phone. Consumers could review products, try them on, test them out, examine quality, then scan the product bar codes and search for the lowest priced retailer in either physical space or cyberspace, then place the order. The physical space store becomes a procuring cause of sale but receives no revenue for it's inventory, display and marketing efforts. Will retailers be able to legally exorcise such consumers from their stores? Will landlords be able to refuse to allow such devices within their shopping centers? These are legal battles looming on the horizon.

Some Speculation: Possible Regional Mall Strategies

There is no doubt that cyber sales will increase rapidly over the next few years. Retail showrooms will evolve into places that provide instant consumer gratification and also launch new merchandise, capture customer information and provide information and advice.³⁵ In-house sales from national or international specialty shops and those paying higher percentage rents are likely to decline as some retailers shift their marketing strategies towards direct marketing and maintain or increase total sales through a variety of distribution systems. Showrooms could slowly shrink in size as a way to try and save rent for those consumers who will start to think of showrooms as places for new product launches or shopping advice, but not always as places for immediate purchase. At the same time, tenants that start to suggest rents based primarily on in-store sales are likely thinking of channeling as much of their future sales through the Internet as possible (Wheaton, 1999). Rather, landlords should be wary of the implicit marketing strategy behind these offers when tenants suggest what looks like attractive percentage rental terms on new lease contracts.

Raising Base Rents. One likely reaction of landlord's to declining growth in percentage rents (if not absolute declines in rent) will be to simply raise minimum base rents (Schwartz, 1997). Such a strategy is sub-optimal in that the interests of the tenant and landlord are no longer aligned. The retail tenant would respond to higher minimum rents by keeping even less inventory on hand and using a smaller, fixed showroom area for promoting sales that are delivered from elsewhere based on in-store samples. At the same time, the landlord needs incentives to promote the shopping center, to focus on good tenant mixes and to provide an appealing environment for consumers. Percentage rents provide such incentives.

Changing the Percentage Formula. Another probable landlord reaction to an increase in merchandise sales returns will be an attempt to dissuade retailers from counting such returns against total sales. But deriving a method to separate same

store sales from external store sales, including those from other stores, is more difficult than trying to develop new measures of store productivity. Retailers might counter argue that at least returns bring in customers who might buy new merchandise or even patronize other mall stores.

Working with Retailers by Using the Internet Together. Progressive mall managers will lead and pre-empt the impact of the web by assisting smaller retailers with website services,³⁶ cross marketing assistance and by developing new ways to measure physical space productivity. Better information systems are required that link the tenant sales activities and through foot-traffic to centralized mall databases. These databases will in turn be used for promoting coordinated merchant association and center marketing efforts.

Mall managers will also attempt to utilize the web in redirecting traffic back to the physical stores. Web-generated coupons and discount offers are one way to do this. Another way is through email messages sent out to targeted consumer groups.³⁷ One method to encourage physical store visits that can only be implemented with a proactive retailer is to allow customers to order via the Internet and to receive the merchandise at home for a charge or be picked up from the closest store for free. This would turn the retailer back into a mini-warehouse and it may create problems if customers do not pick up orders promptly, but it does encourage the customer to visit the store where additional purchases might be encouraged. Price breaks might be necessary to encourage store pickup, but well trained sales people will be prepared to suggest complimentary purchases to the customer upon pickup.

The Inverse or Negative Percentage Rent Lease. One novel idea for a new lease structure that would encourage retailers to maximize physical in-store sales is the inverse percentage rent lease.³⁸ There is a higher than market base rent that is charged to the tenant. For example, the typical rent might be \$25 per square foot per year with a few dollars of percentage rent expected, and the inverse percentage rent lease starts with a base rent of \$30 but declines as sales increase. Instead

of a break point sales above which percentage rents are charged, there is a break point in sales above which a deduction from rent is applied. For example, for every dollar of in store sales above \$250/year, the landlord deducts 2% from the rent. If sales run \$350, then the \$30 rent becomes \$28. If sales runs \$450 the \$30 rents moves down to \$26. Such a lease would discourage store managers from using web bought returns to lower sales. It would also benefit those stores who do well and essentially treat higher sales stores as if they were anchors who normally do not pay any percentage rent. Such a lease would need to be applied selectively to vendors that use highly integrated Internet sales strategies and could not be applied to all tenants or it would negate the landlord's incentive to market the mall.

Larger Mall Owners can Encourage Brand Name Mall Patronage Through the Web. Shopping center ownership has become more concentrated over the last several years.³⁹ Simon DeBartolo Group has 135 plus malls, General Growth Properties has 120 plus malls and the Rouse Company has 48 plus malls to name a few of the larger owners. Such concentrated ownership provides economies of scale in developing better websites and information systems that can be tested, refined and implemented at many shopping centers. Shopping center brand value might be enhanced by websites that help consumers find new shopping venues when traveling and customer ID cards that provide rewards and gifts for frequent patronage. These same larger owners are more likely to be able to implement new rental charges for web-induced and directed shopping. See the Appendix for some retailers that are on the Internet.

Physical Environments and Shopping Center Entertainment will Continue to Improve. While cyberspace marketing will become important for successful mall managers, competition will force the physical environment to improve as well. The entertainment and pleasant experience of in-person shopping that cannot be provided on the net will help to get people away from their computer screens. For example, the nature park setting within the Mall of Georgia, at Mill Creek in Atlanta scheduled to open in 1999 is typical of the enhanced physical space that consumers will enjoy.

Higher quality restaurants, large multiplex movie theaters and entertainment eateries like Dave and Busters also work well as a new type of anchor that provides what cannot be replicated at consumer homes.

All Malls Are Not Equally Susceptible to E-Commerce

Wall Street is likely to turn the future e-commerce debate into an exercise in risk analysis (Borsuk, 1999). Some shopping centers are more susceptible to e-commerce damage. For example, a retail complex with a large traditional bookstore, a large music store, a large video rental store and only a small number of other tenants is going to be viewed as more susceptible to Internet competition unless these retailers are leaders in using their physical space to provide both physical and cyberspace sales. A retail complex with high service tenants including health spas, restaurants, furriers, beauty salons and even high-end tailored clothes will be seen as lower risk. Retailers will need to embrace web-based marketing or Wall Street will see them as dinosaurs and severely penalize their stock prices. This will raise the cost of capital for some traditional retailers adding to their business difficulties.

Conclusion

In the future, the lines will be blurred between in-store retail sales and external or direct sales through printed catalogs, by phone, in restaurants, while watching TV, via kiosks in airport lounges or wherever the consumer resides via a connected world. Shopping centers will need to be wired and integrate networked communication systems throughout the physical space that facilitate and promote serving all the needs of potential customers and retailers.

Physical retail shops will still provide instant gratification but their value will increase for the role of introducing new product lines and capturing information about customer interest and purchasing habits. Retail stores are becoming data capture sites of consumer information for follow-up marketing via alternative inexpensive electronic channels. Showrooms will also become places to collect

customer feedback and reactions to new products prior to general distribution, functioning as live testing centers or to capture web orders.

Customer profile data will be used for continuous micro-level marketing catering to the most minute preferences and interests of the customers. Retailers will need to train their "sales" people to provide real service and advice to customers and to collect as much information as possible through a combination of questions and observation.

The future retail lease negotiation may start with a question from the tenant representative like, "How many hits does the mall website get per day?" Landlords will need to integrate the web into their own marketing plans and to develop strategies that capture the value of the customer information collected during physical visits as well as sales that are redirected to off site distribution.

The Internet is not an immediate threat to the retail property owners' bottom line, but will pose significant decreases in rental revenues within the few decades unless new rental models and marketing strategies are developed. Landlords should be wary of tenants suggesting greater use of percentage rents with lower base rents, and also hesitant of simply raising base rents in response to less growth in percentage rents.

Progressive property owners will be proactive in working with retailers to facilitate their web-based marketing and therefore better able to quantify and measure redirected sales procured through physical space but delivered by DHL, UPS or perhaps Web Van.

Appendix

Web References: Sample Retailers On-Line

Sample Shopping Center Mall Websites

www.oakbrookcenter.com
www.shopwatertower.com
www.shopcopleyplace.com
www.themallincolumbia.com
www.santamoniacaplace.com
www.shopechelonmall.com
www.shopaventuramall.com

Clothing

www.bugleboy.com
www.gap.com
www.fossil.com
www.victoriasecret.com
www.llbean.com
www.landsend.com
www.ninewest.com

Grocers

www.albertsons.com
www.peapod.com
www.homeruns.com
www.netgrocer.com
www.marsh.net
www.safeway.com
www.streamline.com
www.webvan.com

Toys

www.faoschwartz.com
www.etoys.com
www.toysrus.com

General Shopping

www.buysafe.com
www.worldshopping.com
www.imall.com
www.ebay.com

Office Supplies

www.staples.com
www.webvan.com

Travel

www.travelocity.com

Books/Music/etc.

www.amazon.com

Customized Consumer Tracking and Behavior Prediction Software

www.personify.com/company/index.html
Personify Inc.
50 Osgood Place, Suite 100
San Francisco, CA 94133
(415) 782-2050

www.hnsc.com/home.htm
HNC Software Inc.
5930 Cornerstone Court West
San Diego, CA 92121-3728
619.546.8877

E-Commerce Support Software

Maestro Commerce Suite
from BIT Software at
www.bitsoftware.com

Endnotes

1. To illustrate how the market expectations for web based retail had multiplied by the end of 1998, J. Evans of CNN on December 28, 1998 said with respect to Internet company valuations that, "Amazon.com is worth more than Sears (\$16.8 billion market value versus \$15.8 billion market value), E-bay is worth almost as much as Alcoa (\$11.9 billion versus \$12.7 billion), Yahoo is worth the same as Dow Chemical (both are \$24.4 billion companies). And AOL (\$53.5 billion) is worth more than Merrill Lynch, Delta, Kmart, U.S. Steel and Aetna combined! (\$53.5 billion versus \$25.2 billion + \$7.2 billion + \$6.9 billion + \$2.1 billion + \$11.3 billion)." Peter Pike of Pike.net calls this "truly extraordinary" and asks: "What are the real estate implications?" in his January 5, 1999 e-mail newsletter.
2. Negroponte, a frequent writer and speaker on technology has suggested that a trillion or more dollars of business will be conducted via the web by year 2,000. Negroponte is a founder and the director of the Massachusetts Institute of Technology's uniquely innovative Media Laboratory.
3. This is the author's personal opinion without any formal model. The intuition behind this guess is simply based on surveys from a variety of survey firms listed as resources by the "Electronic Commerce Resource Center" based in Bremerton, WA including E-Valuations, the Web Survey from Nielsen Media, Interactive Internet Services, E-land Commerce Net, O'Reilly Research Internet Analysis, Jupiter Communications, Nua, IDC and Zona. See <http://www.becrc.org/statistics.htm>. Zona suggests that Internet shoppers may spend up to 26% of their holiday spending via the Internet. Almost half of all households have personal computers today but the market increases by about 3% each year according to INTECO Corp and PNC Real Estate Market Analysts. When you factor in a generation of new consumers, comfortable with the Internet, and new efforts by retailers to supply goods through this medium, it is easy to see a nation where a third of all sales are Internet based or sold through other forms of direct sales including telephone and mail.
4. See Zona Research, Inc. at www.zonaresearch.com/.
5. Local shoe stores will rarely carry unusual sizes but national catalogs with the larger market to draw upon and web catalogs often will.
6. On 1-5-99 the author's 74-year-old mother called him and said, "I just bought a coat at Nordstroms over the web." This woman got her first computer in the summer of 1998 and learned to "surf" the web in the fall. Her purchase illustrates one growing market segment and also the convenience factor for a woman who does not like to drive. The web solved both these problems.
7. According to a survey by Ernst and Young, the main reason consumers shop on the Internet is convenience (53%), while 46% claimed variety of choice was a driving factor and 45% said cost savings was the primary reason. Source: Keith Hark, Ernst & Young, from www.ey.com/news/releases/012098.asp.
8. A primitive version of this occurred to the author in 1992 while in a Thailand custom shirt shop. The tailor proceeded to measure and record on an index card every conceivable part of my body even though I was only ordering shirts. He said, "You never know when you want to order suit or pants, you just call and we will make it and send it, cheap, cheap."
9. Follow-up email helps Clinique to stay in touch with customers, tweak their profile and improve loyalty, a typical strategy of web savvy marketers that traditional retailers seldom can afford via higher cost communication systems.
10. Bulk warehouse rents are less than \$4 per square foot in most markets, while regional shopping center rents run from \$15 to \$35 per square foot when percentage rents are included for the typical tenant (based on CB-Richard Ellis data in 1999).
11. Amazon.com sells books for approximately 20% less than retail stores, while adding approximately 10% in shipping costs. When sales taxes are assumed to be 5%, the net savings should average 15% to the consumer. Many other websites suggest savings of 50% or more, but the retail price claimed is always questionable. For example, smokeshop.com suggests cigars worth \$175 a box for \$50 a box, and shades.com suggests fantastic prices on brand name sunglasses, while reel.com suggests more than 50% savings on movies. Higher savings are more likely on those goods known to have the largest markups like jewelry, faddish music, movies, games, clothing, cigars and faddish accessories.
12. Webvan.com a multiple product vendor attempts to mitigate this problem by scheduling deliveries to within the half hour a drastic improvement over the morning or afternoon promise of most vendors.
13. According to Elena Miller, an international consumer-marketing expert, with the exception of stores like Nordstroms, few sales associates in American regional mall stores are trained to advise the customers on appropriate selections, fashion trends or design issues.
14. See Internet Retailing an Emerging Channel, PNC Bank research paper, March, 1999:9.
15. There are a number of new thin display pads that allow books to be downloaded and stored on a portable medium similar to a very thin computer. Users simply turn the pages with a thumb mouse and the book remembers where you left off. The advantage of such a "book" is that it allows the user to adjust font size, it can include some sounds and video clips and it can still be taken to bed. The disadvantage is that it requires some power, doesn't quite smell like a book and is a little thicker than most magazines, but some flexible display pads are under development by IBM and others. Source: Knowledge TV, June 18, 1998.
16. See the web references on grocery stores that provide live video of available vegetables, meats and fruits.

17. See Please Don't Squeeze the Tomatoes Online, *U.S. News and World Report*, November 9, 1998:51.
18. Webvan.com usually delivers free when orders are more than \$50 dollars.
19. Better-trained sales associates may require higher compensation. This implies that only those stores with higher than average profit margins might implement such a strategy.
20. In a similar vein, cyberspace cross marketing is becoming more effective. Yahoo has 2 million products from 27,000 stores.
21. Many retailers like the Gap are now installing kiosks in their retail stores effectively mixing on-line cyber sales within physical space sales but sometimes avoiding sales taxes as well as lowering inventory requirements.
22. One can imagine stores like Wal-Mart charging manufacturers for in-store advertising as a way to provide product location and quality information kiosks.
23. This term was coined by Mark Borsuk.
24. Don Peppers and Martha Rogers at a seminar on One-to-One Marketing, 1995, Chicago.
25. For example, the Wedding Store could provide everything from cakes to wedding invitations, and ski travel planners could provide everything from ski boots to accommodations. Amazon.com is now starting to make inroads into the music and software business. This is the essence of cross marketing for which dominant websites and search engines are well suited.
26. An example of a preferred visitor card can be seen at the Aventura Mall in Miami, Florida. The shopper is provided with instant access to information on discounts, free prizes and coupons. Tailored for out of town guests, such cards will become more common for all repeat shoppers. See www.myspree.com.
27. Urban retail properties and other managers are using frequent customer/loyalty enhancing cards in some form or another.
28. At the same time, mall managers might find themselves referring some business to on-line retailers and may want to develop referral commission agreements in exchange for this business, producing additional sources of off-site income.
29. This last point was made by Steven Malpezzi, University of Wisconsin-Madison, January 16, 1999, Weimer School.
30. The mall might attract consumers through entertainment venues and attractive environments.
31. From discussions with the International Council of Shopping Centers research staff in March, 1999.
32. The Gap has a friendly return policy allowing customers to return Internet purchases to the stores, while Victoria's Secret insists that catalog or Internet sales are returned to the centralized distribution system. In fact, the Gap's website instructs customers to return online purchases to "any Gap, GapKids or BabyGap store." However, the site also states that "items purchased from a Gap store cannot be returned to Gap Online." See *Shopping Centers Today*, March 1, 1999: 1.
33. At the same time, incentive paid retail store managers may want to see new measurements of their own performance, if returns become less correlated with same store sales.
34. "If sales do not increase at individual stores, neither will rents. This is our biggest challenge. I don't see retailers agreeing to be charged rent based on the number of hits to their website. There is little, if any, incentive for retailers to let landlords get any benefit from their Internet sales." L. Craig Estrem with Madison Marquette Realty Group, Cincinnati, Ohio in comments to the author.
35. In discussions with the author, Elena Miller, an international marketing expert, suggests that the typical sales associate has little training beyond steering a customer towards existing stock. Better managed retailers will need to train their sales associates in actually providing advice on how to use, wear or combine various consumer goods in order to compete effectively.
36. According to PNC Bank Analysts Buss, Futrell and Dorries (1999), linking up with a strong portal (active Internet site) is crucial for retailers to increase their conversion rates of visitors to sales. Typically, only 0.3% to 0.5% of visitors will make a purchase, although some networks suggest conversion rates as high as 4.0% to 6.0%.
37. A recent example of this trend is the deal that mall owner and manager, General Growth Properties announced in a partnership with CoolSavings.com, an Internet coupon and sales promotion site. The deal allows shoppers who surf the CoolSavings site to download coupons redeemable at merchants in thirty-six of General Growth's 120 malls. Retailers in the participating malls, most of which are located in or near major markets, can post their own offers, and track their effectiveness through the site. General Growth will also gain access to membership information of CoolSavings customers. The site has 2.5 million registered users. The deal with CoolSavings follows a successful test run over the holiday season at General Growth malls in Michigan and Texas. "This will drive traffic in our centers," General Growth's Vice President for New Business Mark Klocker told SCT Newswire. "It gives our customers a chance to get value-added coupons and we get access to CoolSavings' customer profiles, which helps us cater to our customers' needs. CoolSavings is committed to helping traditional brick-and-mortar retailers bridge the gap between their retail outlet stores and the Internet by providing shoppers with one-stop access to great savings that they can print and use in stores," said Craig S. Peterson, vice president of the CoolMalls division of CoolSavings, in a statement. CoolSavings is a Chicago-based Internet company founded in 1997. Compiled by the staff of *Shopping Centers Today*, March 23, 1999, International Council of Shopping Centers. See www.icsc.org news releases 3/24/98.
38. This idea was developed by Rob Acker while an MBA student at the University of Cincinnati. Acker is now with Madison Marquette, an innovative retail property developer.
39. See They Can Get It For You Retail, *Institutional Real Estate Securities*, 1998, 8:2, 8.

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