

Consumer preferences in the commercial real estate market in Russia

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Abstract:

Digital transformations during the COVID pandemic changed consumer behavior: people began to work, study, buy and receive goods from their homes. This led to a change in the logistics and supply chains of the business. Both of these reforms affect one particularly considerable market - the commercial real estate market, which includes retail, office, industrial and warehouse property.

In this paper, the preferences of commercial real estate users after the end of lockdown in Moscow were scrutinized. On the data of more than 1000 questionnaires, current requirements of consumers of commercial property to the area, location, price and technical characteristics of the building and premises were found. The paper shows the significant changes in consumer preferences in the market after the lockdown. These shifts can lead to the transformation of the construction market, location policy, investments in the commercial real estate market.

Keywords: consumers, preferences, property

1. Introduction of Paper

Commercial real estate includes buildings, structures or lands that are used for commercial activities to generate profit. Commercial real estate comprises retail, office, and industrial-warehouse property. The commercial real estate market is closely connected with the real sector of the economy. With an increase in demand for consumer goods and services, their production and supply increase. This requires additional industrial, warehouse, and retail spaces. Conversely, with a decrease in consumer demand, production and demand for additional spaces decreases (Gusev, 2006). In addition to consumer demand, real estate demand depends on other economic indicators, such as productivity and unemployment (Malizia, 1991).

Most commercial property is rented out. In Russia, more than 70% of commercial real estate is leased, and less than 30% - is sold. Companies prefer to rent for several reasons. Firstly, real estate is a very expensive product and only a handful of businesses can afford a purchase. Secondly, business is characterized by a fluid and rapidly changing environment and consolidation in one place can be risky. These reasons generate demand for the rent of commercial real estate, and this demand stimulates supply.

2. Estimation of tenants' preferences at the commercial real estate market

Some studies focus on a qualitative assessment of the preferences of potential tenants. The researchers showed that the office real estate tenants looked at the cost, location and characteristics of the building (Adnan et al., 2015). Other researchers find that tenants of co-working spaces want accessibility and the quality of atmosphere/interior of the workplace (Weijs-Perrée et al., 2019). Studying tenants' preferences is very important for business because articles show that the tenants' satisfaction affected their willingness to rent and the financial outcomes of the owner (Sanderson & Devaney, 2017). In addition, the property owner may influence tenants' willingness to recommend him to future clients (Sanderson, 2019).

Therefore, this study focuses on the research of the tenants' preferences in the commercial real estate market with a purpose to provide the recommendations for developers, investors, owners, and researchers.

3. Data and methods

Since tenants are the main consumers in the commercial real estate market, and Moscow is the largest market segment, tenants of commercial real estate in Moscow were selected as the object of the research. The subject of the research was the tenants' preferences.

Data collected from the largest Internet platform about real estate in Moscow. It contains information about consumer preferences. Any visitor of the site can leave an application for the purchase or lease of commercial real estate. In the application, he can indicate the type of request (purchase / rent), the desired location of the property, its type (residential / retail / office / production / storage), area, price, and additional requirements.

For the research purposes, all applications submitted on the site for the period from August 2020 to March 2021 were collected. These requests were left by 1243 potential tenants who want to rent 43,156 square meters of commercial real estate which is about 5% of all transactions during this period. In the sample, 696 potential tenants want to lease retail property, 378 - office real estate and 169 - industrial and warehouse premises. The structure

of primary data on unique tenant applications and square meters of real estate is shown in Figure 1.

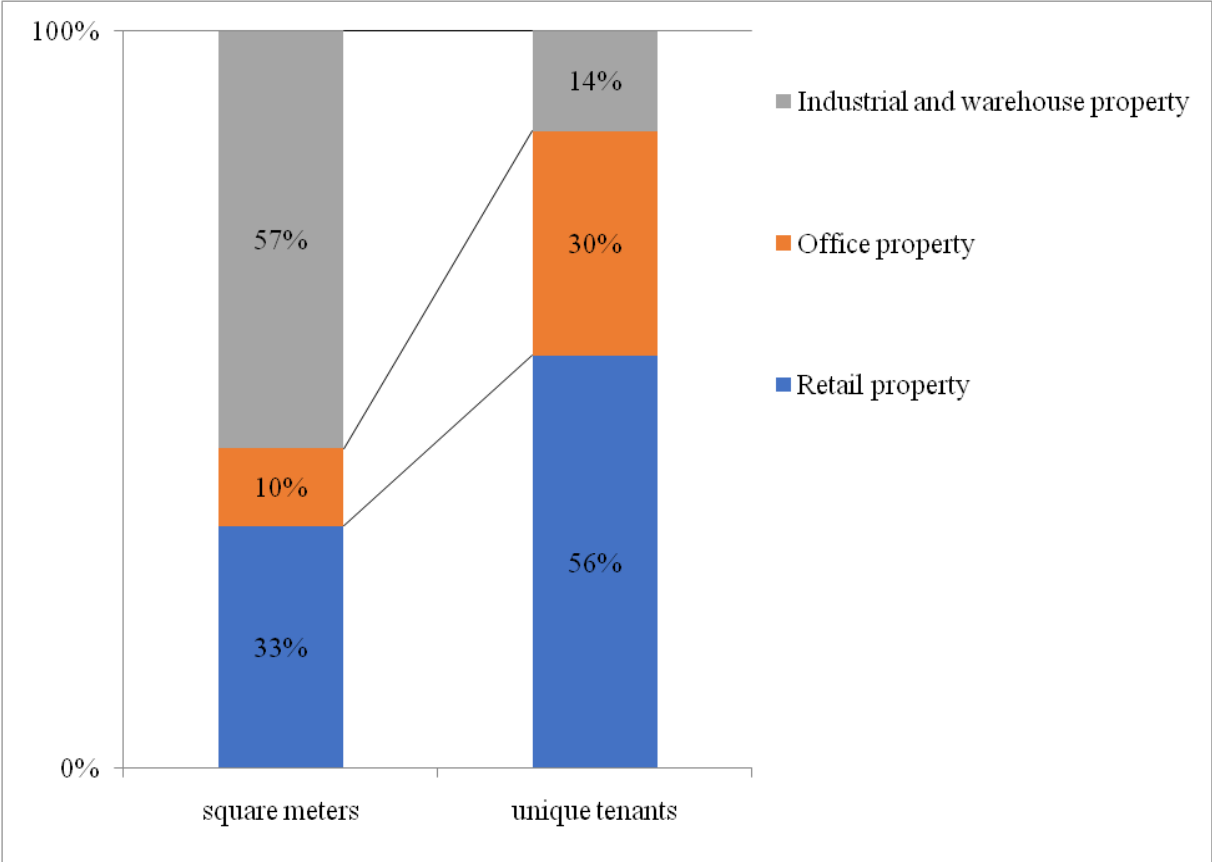


Figure 1. Structure of the sample

Data were analyzed for validity and reliability, incomplete and incorrect data were adapted. The preferences of potential tenants of commercial real estate were analyzed by three statistical methods: comparison of means in independent samples, correlation analysis and content analysis.

4. Empirical results and conclusions

In the research, the tenants' preferences were analyzed in detail. At this point, we needed to understand what the potential tenants wanted and what they were willing to pay for.

To begin with, the correlation between desired rental area and monthly rental cost was calculated. The found correlation was significant, positive, R^2 was 0,484. The initial values and the trend line are shown in Figure 2.

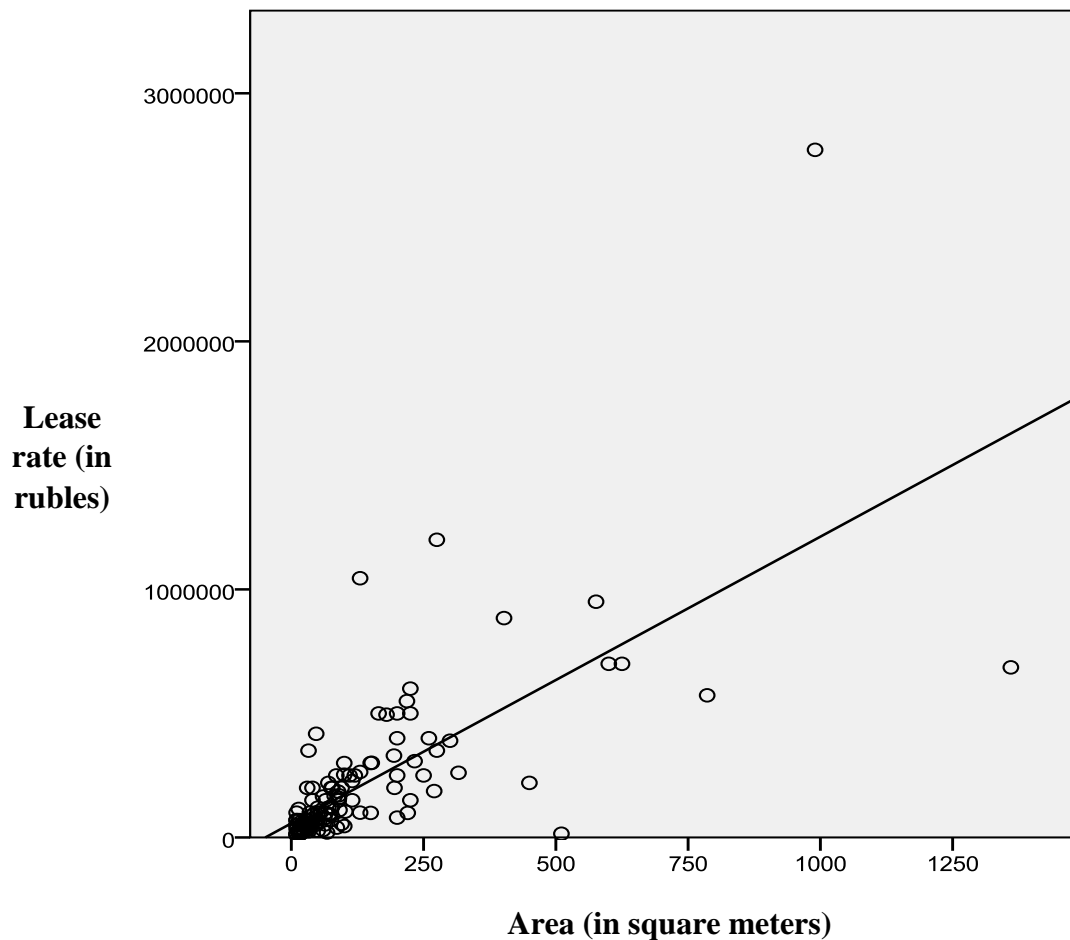


Figure 2. Correlation between lease rate and area of real estate.

The second step of the research was to separate data by type of real estate and compare the preferences of consumers in retail, office, industrial and warehouse property.

Descriptive statistics of rental areas and costs of the three types of real estate are presented in Table 1.

	Retail real estate		Office real estate		Industrial and warehouse real estate	
	Area	Lease rate	Area	Lease rate	Area	Lease rate
Mean	144,86	250207,94	94,36	135728,37	224,05	128969,94
Std. error of mean	24,239	41709,538	18,685	30929,147	65,033	46893,980
Median	65,00	115000,00	45,75	76666,67	112,50	55000,00
Mode	10	50000	15	150000	200	20000
Std. deviation	239,955	389040,673	129,454	198043,172	305,032	193348,832
Dispersion	57578,473	1,514E11	16758,433	3,922E10	93044,522	3,738E10
Range	1745	2762000	567	937200	1341	665667
Minimum	5	10000	9	13200	19	20000
Maximum	1750	2772000	576	950400	1360	685667
Sum	14197	21768091	4530	5564863	4929	2192489

Table 1. Descriptive statistics of rental areas and lease rates of retail, office, industrial and warehouse property.

4.1. Consumer preferences for retail real estate.

Content analysis of additional (except for area, cost and location) requirements of tenants showed that the most important characteristics were high traffic, first line, and 1st floor. Some tenants need parking, ventilation system, display windows and separate entrance to the property.

Lease rate per square meter is distributed normally (the distribution can be seen in the Figure 3), its average value is 2639 rubles, and the mode is 2500 rubles.

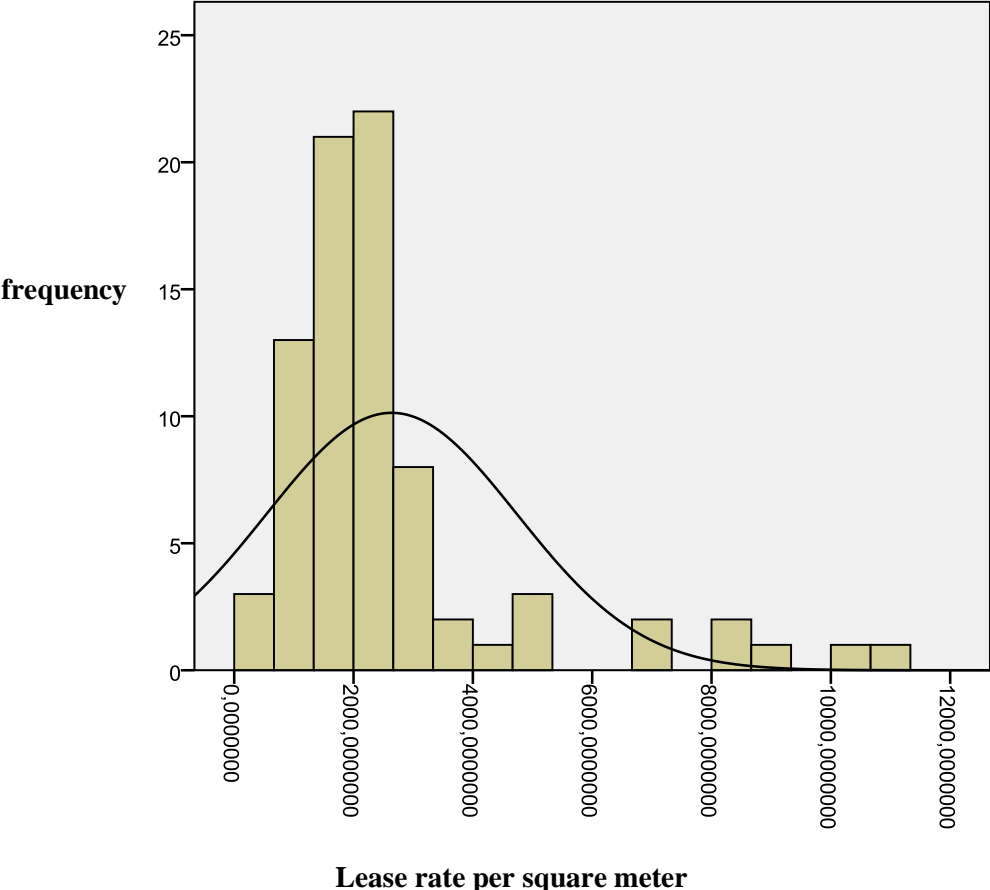


Figure 3. Histogram of the lease rate per square meter of retail real estate in Moscow.

4.2. Consumer preferences for office real estate.

Content analysis showed that some office tenants needed parking, transport accessibility and a legal address for government agencies.

Lease rate per square meter is distributed normally (the histogram is shown in the Figure 4), its average value is 1607 rubles, and the mode is 1100 rubles.

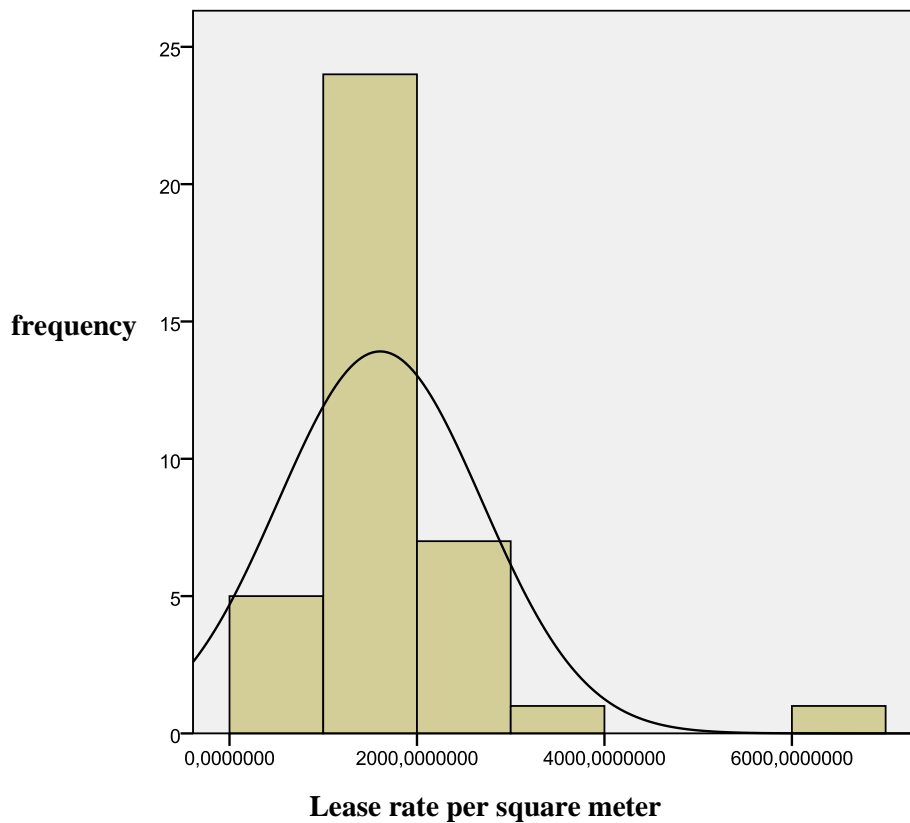


Figure 4. Histogram of the lease rate per square meter of office real estate in Moscow.

4.3. Consumer preferences for industrial and warehouse real estate.

Content analysis showed that potential tenants of industrial and warehouse real estate looked for round-the-clock access, heating, ramp or freight elevator.

Lease rate per square meter is distributed normally (the histogram is shown in the Figure 5), its average value is 772 rubles, and the mode is 296 rubles.

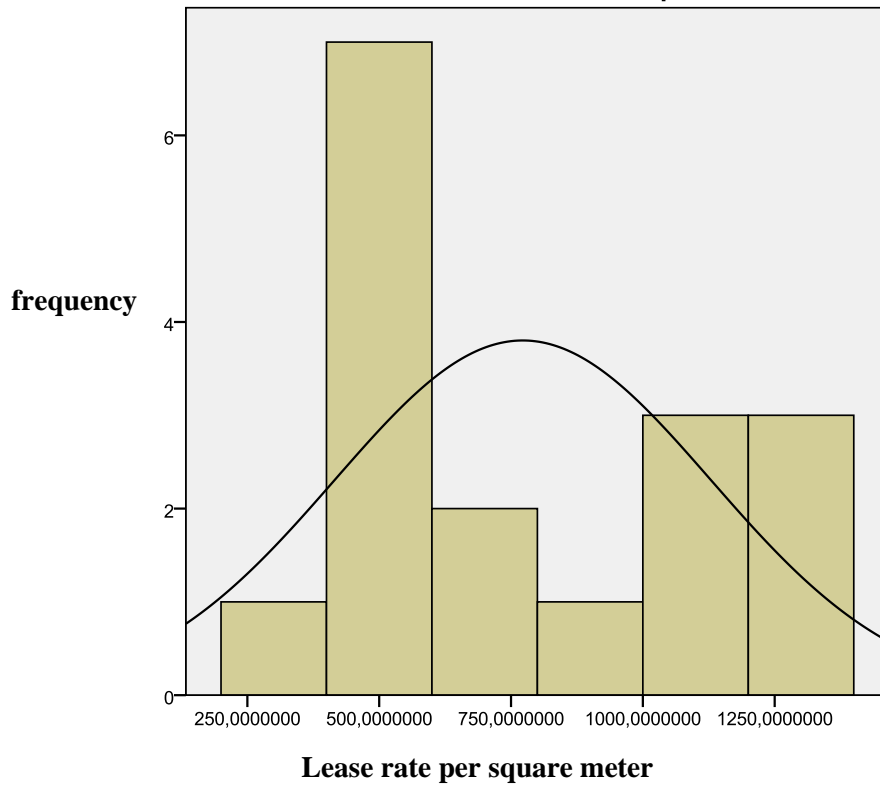


Figure 5. Histogram of the lease rate per square meter of industrial and warehouse real estate in Moscow.

Also, potential tenants of all types of real estate require all utilities: electricity, water, heating.

5. Conclusions and future research

Thus, the research analyzes the preferences of potential tenants of commercial real estate in Moscow. The author found out that the location, area, lease rate, and different technical characteristics were significant for all tenants, but the potential tenants of retail, office, industrial and warehouse property have significantly different requirements for real estate. Retail property tenants are looking for excellent location, high traffic, and good visibility. Office tenants are looking for small area, transport and parking accessibility. Industrial and warehouse tenants are looking for large area, low cost, and technical compliance.

The results obtained are consistent with the results of previous studies. The rental rate of commercial real estate depends on its location and area (Kapralin, 2012). Rates on retail and office real estate exceed rates on industrial and warehouse property (Lazareva & Tyuleneva, 2019). Tenants of real estate look at the cost, location, and characteristics of the building (Adnan et al., 2015).

The found results are extremely important for owners, because it can help them achieve the best financial results by increasing rates, reducing downtime or decreasing the share of vacant space. After all, knowing the needs of customers in advance helps to satisfy them accordingly. Also, the tenant satisfaction affects their willingness to pay (Sanderson & Devaney, 2017).

The results can help developers in finding new locations and creating layouts of commercial properties, assist investors in choosing the most attractive properties, and support potential tenants in analyzing the current market situation. The information provided can help avoiding existing information asymmetries in the market (Gusev, 2006).

Any interested parties should understand that other markets, such as consumer and financial, influence the real estate market, therefore it is necessary to monitor changes on an ongoing basis. For example, now the development of E-commerce is influencing the demand on retail and warehouse property (Zhang et al., 2016).

Overall, this study is the first work analyzing the behavior of potential tenants in the commercial real estate market in Russia. This topic can be continued with a larger dataset, a specific segment of real estate, and purpose of use. It is possible to conduct an additional survey or interview with potential tenants in the market to understand their additional motives and needs.

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