

Importance of the shopping mall construction essay



**ASSIGN
BUSTER**

Introduction

The Moreland property group is the leading property developers in Sri Lanka since 1990. The company plans to develop a property on the site which is located No 2, Galle Road, Colombo 3. This proposed site is located in an attractive and valuable location, hence the market value of the project will increase significantly. Therefore the company has chosen that particular land to develop a suitable project in order to make reasonable profit. The Moreland property group went through lots of project proposals and has selected the most suitable one after the elaborated analyses. The five star hotel, the shopping mall and the residential apartment projects are proposing for the new development. However The shopping mall construction is identified as the most suitable development for the proposed site. Importance of the Shopping Mall According to Finn and Louviere (1996) shopping malls are playing key role in modern retailing and marketing system, furthermore they still dominate the distribution system of goods. In the modern world a consumer expecting best service within a short time and under one shelter. Shopping malls full fill this requirement of the consumer. These shopping malls not only containing shops but also providing other important services such as bank and libraries. Nowadays a modern shopping mall provides the vast range of entertainment for the consumer such as restaurants and cinemas (NCSC, 2009). Reasons for the shopping mall development First large scale shopping mall in Colombo According to Global Property Guide (2012) the average income of the Sri Lankans was increased due to increased employment in IT - BPO sectors. The high earners do not want to waste their time by going to the retail shops. According to Perera

(2011) Sri Lankans are travelling overseas more regularly and are also exposed to global trends through television and satellite and cable networks. This has made Sri Lankan consumers westernised in their thinking to shop at modern retail establishments. Consumers prefer one-stop-shopping destinations, which offers convenience, choice and comfort (3C's) which can be found in a large scale shopping mall. However there aren't any large scale shopping mall in Colombo, therefore the shopping mall construction in the proposed site will be getting more attention and value. The location According to the site layout and the maps (Appendix 01&02), the proposed site is located on the seaside nearby Galle Face Park, large number of tourists visit the beach and Galleface green every day. According to Robinson (2008) most people in the World (including Colombo) enjoys shopping. But in Colombo there are no any large shopping malls at the moment. Therefore it will be the first shopping mall in Colombo and will be located in a very attractive place with many hotels located nearby so this project will be a substantial value and it will increase the profit significantly.

Retail industry A very strong retail sales in Sri Lanka have been the driving force of the retail property market. After finishing the 30 years of local war Sri Lanka now feel the economical stability. Due to this peaceful situation the foreign investment in increasing significantly and it is reducing the unemployment. Therefore the wages and the consuming power of the people going higher level than past decades. Hence the people want some shopping malls to fulfil their needs. Meanwhile foreign tourists are contributing more in the retail market of the Sri Lanka. The shopping mall will attract them also. Due to these reasons the shopping mall development will be getting more value in the future and it will lead to earn more profit. Approval of Board of

<https://assignbuster.com/importance-of-the-shopping-mall-construction-essay/>

Investment Nowadays the government of Sri Lanka gives more priority to the infrastructure development of the country to increase the economic growth of the country. Hence the government provides lots of subsidies for the infrastructure development projects (BOI, 2012). Here the proposed Shopping mall project is one of the infrastructure developments of this country, so the Board of Investment of Sri Lanka will give the approval for this project. This approval is very important to make a respectable profit. Because the company cannot sell the property beyond the market price, cannot buy a land for a very low price and cannot reduce the quality of the project. But the BOI approval will help to import construction materials and plants with tax exemption and this will help to increase the profit by reducing the construction cost. Higher rent and selling price Meanwhile in Sri Lanka the rent and the purchasing price of the commercial buildings facing significant growth in the last decade (CBSL, 2012). Therefore the company can earn reasonable profit by selling or letting this shopping mall. According to BESL (2006) in the proposed site area a luxury commercial building with a good tenant has less than 8% yield consequently if a shopping mall construction is on this site it will get higher value when it is sold and a higher rent can be obtained from the tenants. Approval of Urban Development

Authority According to UDA (2009) up to seven stories building can be built on the site which located 50m from the sea. Here five storey building is enough for the large shopping mall. However this site is located nearby the sea and contains very loose soil. Therefore cannot go for any high rise building however this soil condition will not affect a five storey building construction significantly. The fewest amount of resources Comparatively

there isn't need for higher technology plants and technicians to construct a <https://assignbuster.com/importance-of-the-shopping-mall-construction-essay/>

five storey shopping mall building. Within the available resources of the company, this project can be done very well. The shopping mall needs less electricity than a hotel or residential apartments. Hence it will be constructed with solar panels to produce electricity which will be needed to operate the building, so the energy consumption from outside will reduce and it will be the ECO friendly building. Hence getting the approval from environmental authority will be easier. The structureThe structure of the commercial building is very important to attract the customers. It will increase the demand of the building and the value. This is a five storey building and it will have an anchor retail store in the entire fifth floor. Also it will have international chain stores such as Benetton and Calvin Klein, as well as local franchise stores such as KFC, McDonalds. This shopping mall will have some restaurants on the ground floor also it will have a cinema theatre. Additional incomeAccording Chang et al. (1995) to parking fee contributes more than 5% of the total potential income of the shopping mall. Here the company can manage the garage or the operation franchise can be sold to the specialist company. In order to make a good profit, the shopping mall construction is the best choice because the future value of this sort of buildings very high in developing countries such as Sri Lanka.

Land purchasing method

In the property development industry several land purchasing methods are available in common practice, each method has their own characteristics. Among all the methods the option to purchase method was chosen by the company for this proposed shopping mall project. According to SL&PA (2011) the most cost effective land purchasing method is an option to purchase. In

this method an agreement should be made between seller and buyer and in this agreement the negotiated land price, option fee and specific period of time for purchasing should be mentioned. However at the end the specific time period the buyer does not have the obligation to buy the land, he can buy or he can reject it but the option fee will be lost. This is a less risky method than the other land purchasing methods as the buyer needs to pay very little amount of money as the option fee and if he decided not buy the land in the future he will lose only a small amount as the option fee (Investopedia, 2009). Here in this new proposed shopping mall project the estimated land value is Rs. 1. 041 billion, which means the company can offer maximum 2. 404 billion rupees for the proposed land. However under option to pay contract 1% of the total amount can be made in advance as an option fee. It will 10. 417 million rupees. Here the specific time period for settling the remaining money can be agreed as one year, so the company has one year to arrange the remaining money for the land. During this period, company's capital can be used in other areas of the project, as the total amount only needs to be paid at the end of the year when the land is bought. The land can be owned by paying the minimum amount of money as an option fee therefore the buyer can start the construction work earlier. This method is very flexible to both parties and it is a profitable method for the buyer and seller. At the end of the specific time period the buyer can pay full money so he does not need to pay extra interest for that money to the bank or any other financial companies. If the buyer rejects the land at the end of the option period then that option fee will belongs to the seller so seller also will not be affected by this method. After all discussions and analyses the Moreland property group decided to buy the proposed land by <https://assignbuster.com/importance-of-the-shopping-mall-construction-essay/>

option to purchase method. And the company pays 10. 417 million rupees as an option fee to the landowner of the site. This method was chosen by the company to avoid risk and increase the cost effectiveness.

Unique selling point

The Unique Selling Point (USP) in the sense it is a special aspect or feature that something has which is making it more valuable than something similar to it. USP is the most common and well known advertising technique in the marketing field. Each product should have a USP to attract more people. The USP should be unique and new to the peoples eye and it should not exist in any other buildings. In this case the shopping mall also should have a unique selling point to attract buyers and customers. In this proposed project the shopping mall is the main unique selling point because aren't any other large shopping mall in Colombo City, therefore it will definitely help to increase the value of the project. However the Moreland property group planned to attach a very unique selling point to this shopping mall which is called the Anchor retail store. It is a commonly used as a USP in western countries but it is a new concept for the Sri Lanakan people. Hence it will attract more people to this shopping mall due to this reason the project can sell or let very easily. The Austrian architect Victor David Gruen introduced the anchor stores in mid of 1950. Anchor store means it is a large retail store in a shopping mall, generally it can be a department store or larger retail chain store. These sorts of anchor stores are very essential for the financial stability of the project, therefore every shopping mall has one or more anchor stores. According to Konishi and Sandfort (2002) consumers are attracted by the name of the anchor, therefore they will visit to the shopping mall. According

to Damian (2008) the anchor store usually located in the end or corner of the shopping mall, so this proposed project the anchor store will be constructed on the fifth floor of the building and this the last floor. The entire fifth floor will allocate for the anchor store. Because the space of anchor store is very important to attract people. Due to the location of the anchor store people will go through all floors and shops when they go to anchor stores. It will increase the business of the other shops. According to all the analyses and discussions, the Moreland company has decided that the entire fifth floor of the shopping mall complex will be the anchor, this will definitely increase the value of the project while selling and letting.

Key Risks

Introduction While doing each development there are some risks may occur. Overcome from those risks is very important to the success of the project. There are many risks can be expected in this project as well. Land purchasing Purchasing land is the major risk identified in this shopping mall construction project. Because lots of legal issues may happen in the land purchasing also the future value of the land is uncertain and it depends on many factors. As well as cannot expect all land to increase in value. Due to this reason the buyer may not like to buy the land in the future. Therefore a solution to be needed which is able to release the buyer from the obligation of buying land. Here the option to purchase method is the best solution to overcome from this risk. In this method the buyer just needs to pay a little amount of money as the option fee at the beginning of the purchasing and then he can pay the remaining money within an agreed time period. At the end of the agreed time period if the buyer found any problem or if he not

willing to buy the land, then he can refuse to buy the land but he will lose the option money. In this shopping mall development the estimated land value is 2.404 billion rupees. But 1% of the land value (10.417 million rupees) can be paid as an option fee to avoid the financial risk. Difficulties in selling or letting the project. Meanwhile another main problem along with this development project is difficult to sell or let the project after the development. Here the solution called pre letting. The shopping mall can be pre letting to the tenants before starts the construction and the advanced money can be obtained from them. Advertising and good marketing strategies are essential for this process. However it will reduce the risk of difficulties in selling or letting after the construction. Meanwhile this pre letting strategy helps to increase the capital of the project because the advance money that obtained from the tenants can be used for the development of the project. Cost overrun. Cost overrun is the the most common problem which is occurring in the construction projects in current days. The cost overrun will increase the project cost therefore the profit will reduce. But to avoid the problems due to cost overrun in lump sum construction method will use for this project. This lump sum construction method the contractor and client should agree with the certain amount of money as the construction cost and the contractor must finish the project within the agreed amount with the specified quality. Therefore the risk of cost overrun shift to the contractor's side. Delay of completion. Delay in the completion of the project is the major problem in the construction industry. Due to the late completion of the project the client will face lots of losses. But usually lots of construction projects are not completed on time.

Therefore the client needs to take any remedy to avoid the loss due to the <https://assignbuster.com/importance-of-the-shopping-mall-construction-essay/>

delay. The completion guarantee certificate is the best remedy to avoid losses. By the guarantee certificate if the project not finished on time then the contractor should pay the liquidated damages to his client. So the client will prevent from the losses that occur due to the delay of completion of the project. However lots of risks related to this shopping mall development project even though there are some remedies available to overcome from those risks. Those risks and remedies are elaborately discussed in this chapter. As briefly those risks and remedies; Risk in land purchasing - Option to pay method Difficulties in selling or letting after construction - Pre letting or selling Cost overrun - Lump sum contract Delay in completion - Completion guarantee certificate (Liquidated damages)