

The Ultimate Guide to Generating Ancillary Revenue Like a Pro

GO BEYOND TENANT LEASES
TO BUILD A CREATIVE BOOST
TO YOUR BOTTOM LINE

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Shopping center profits can be bolstered through long-overlooked ancillary income channels.

Shopping centers are rich oases of commerce, offering a dizzying array of purchasing possibilities for their customers — from the budget friendly and convenient to the extravagant and luxurious. They are homes to national brands, locally based small businesses, and everything in between. Long-term tenants constitute the beating heart of the operation. They draw the crowds of consumers and provide the bulk of the revenue that keeps the lights on.



However, shopping center landlords know that the nature of their venues offers myriad other creative ways of earning an honest buck.

For years, ancillary income was an often overlooked piece of the shopping center revenue puzzle. However, interest in innovative ways of mining money



A savvy approach to ancillary income can help guard against the vagaries of the market and the occasional downturn, while also spurring growth and maximizing revenue.

from the unique opportunities that shopping centers provide has grown in recent years, accelerating with the 2008 recession and the accompanying scramble for fresh revenue streams. Many shopping center operators now devote resources and staff to tapping into these supplemental income sources, and these efforts are no longer considered just a bonus — they're viewed as necessary. A savvy approach to ancillary income can help guard against the vagaries of the market and the occasional downturn, while also spurring growth and maximizing revenue.

In this article, we will show you some of the most frequently employed ancillary income opportunities and help you decide which ones are right for your operation.

THE OPPORTUNITY: TEMPORARY LEASES

The Big Picture

In the right circumstances and the right storefronts, tenants with temporary leases can prove to be valuable sources of revenue that serve as either a lifeline in a soft market with no upturn in sight or a strategically erected bridge connecting one long-term occupant to the next.



Short-term leases can turn open space into seasonal revenue generators.

The Particulars

The tenants that fill temporary leases take on many forms. Holiday and seasonal stores, such as retailers focusing on Halloween costumes or Christmas decorations, are common, but they are far from the only possibilities.

Other frequent seekers of a short-term space are start-ups, which often do not have the wherewithal to commit to a long-term lease. A potential benefit to welcoming an occupant with a startup profile is that success in the spot could

transform them into a permanent tenant.

In addition to providing a revenue source, short-term tenants can help shopping center operators guard against the potential activation of a depletion clause, a contract component that allows long-term leaseholders to exit their space if occupancy rates drop below a certain percentage.



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Similarly, co-working spaces – large offices filled with freelancers, startups, and small businesses – are also an increasingly popular choice for the self-employed masses. These spaces offer desks, wireless Internet, meeting rooms, printing, and often coffee into one bundled monthly fee. Consider morphing a large empty storefront into multiple, flexible office spaces; individual rents for these tenants can even eclipse what you might earn for a single occupant.



KEEP AN EYE ON

No matter the nature of the temporary tenant, though, they need to be fuss-free — able to move in and out of the space with few added costs or any call for substantial resources beyond the ones already in place, such as dressing rooms or other physical features. The profit potential of using temporary leasing is linked to taking on limited new expenses.

As with any decision, a strategic foundation is essential. An important first question: Does the nature of the potential tenant's business align with the environment of the shopping center, especially when

considering the nearby establishments and their brands? The store should serve as a complement rather than detriment to long-term tenants while making aesthetic and practical sense to customers. From a big-picture perspective, the shopping center needs to maintain the right permanent and temporary tenant mix.

ATMs offer an ancillary income stream and can be implemented in a number of ways, with trade-offs between revenue earned and maintenance required.

Another critical consideration is to weigh the state of the market. If a market improvement that might lure a long-term option does not appear to be on the horizon, then exploring a short-term tenant is a logical response.



THE OPPORTUNITY: ATMS AND VENDING MACHINES

The Big Picture

Among the simplest additions with revenue potential for a shopping center are automated teller machines and vending machines. These contraptions are modestly sized,

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Shopping center operators have different ATM models to match to their preferences and circumstances.

typically unobtrusive extras that can develop immediately into steady suppliers of passive income. Although their returns may not prove entirely lucrative in every location, they also often require little upkeep or management, depending on the way they are implemented.

The Particulars

Shopping center operators have different ATM models to match to their preferences and circumstances.

In one option, the shopping center owns the ATM. The chief benefit of this approach is that the property reaps the bulk of the revenues from the fees that cardholders must pay to access cash. The downside is that the shopping center is responsible for servicing and maintaining the machine and supplying the cash (the appropriate financial institutions provide compensation to cover the cash after the initial transactions at the machine).

A second model has the shopping center contracting with a provider who supplies and manages the ATM. The shopping center operators receive only a portion of the user transaction fees, but they save the time and resources required to maintain the



Walk-up ATMs take up little space in a parking lot or walkway, but require interior space for servicing.

machines. In this scenario, the cost of a machine’s presence amounts to nothing. This model also is the one typically used for vending machines, photo booths and movie rental kiosks.

A third model is a bank-owned ATM, which can either be drive-thru or walk-up. A drive-thru ATM would require taking space in the parking lot, thereby removing some spaces but creating an island

of revenue in an otherwise large lot. Walk-up ATMs can be placed on exterior walls, but will require space on the inside for servicing the machine.



KEEP AN EYE ON

Picking the right spot for an ATM or vending machine location can prove consequential. In general, these machines provide the most value in sites that generate heavy foot traffic. Other factors that can make a location attractive for ATMs

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include the proximity of businesses that require cash, nearby tippable services, and whether there are other ATMs in the neighborhood. Drive-thru ATMs in conspicuous locations, where they draw the eye of shoppers and perhaps passing motorists, also can generate a high volume of transactions.

THE OPPORTUNITY: STAGING EVENTS IN THE PARKING LOT

The Big Picture

Parking lots are vast realms of real estate that often are untapped as sources of revenue. Businesses and organizations plan events that need both space and people, and shopping center lots are an attractive option. With astute planning, landlords can use their lots as staging areas for events and activities that not only provide ancillary income but also attract shoppers to visit their tenants' stores. These events provide new income with the dedication of few resources, if any, beyond what already exists: a parking lot's flat, open space.

The Particulars

Portions of parking lots can be rented for events that are both one-time only and regularly scheduled. These special events may last days or weeks at a time or they may endure for only a matter of hours.



Some possible events that could suit parking lots include:

- Tent sales, including both regular retail and seasonal specialties, such as Christmas trees
- Fundraising sales
- Special automobile shows or sales
- Farmers' markets
- Festivals and carnivals
- Promotional events, such as a radio station broadcasting from the lot with related activities
- Health fairs or screenings
- Food trucks



Parking lots are highly visible and serve as gateways into a shopping center.



KEEP AN EYE ON

As with other plays for supplemental income, it is important to maintain a commitment to your brand when partnering with outside groups for events in the parking lot. Parking lots are highly visible and serve as gateways into a shopping center. An event with an appearance or theme that clashes with a shopping center's overall atmosphere could be damaging.

You will also want to consider risks and liability. Be sure to check with your insurance provider and legal counsel to make sure you stay protected when crowds and vendors amass in your lot.

Of course, the chief purpose of the parking lot is paramount. Picking a day and time when a special event can occupy parking spots without inconveniencing shoppers by making finding a parking space more difficult is essential, as is locating the event in an out-of-the-way portion of parking lot so that it doesn't cause disarray to entering and exiting traffic.

THE OPPORTUNITY: STORAGE

The Big Picture

Unused space in a shopping center generates no income, but sometimes the revenue potential of that space just has not been realized yet. Offering space

for storage is one option.

Not all shopping centers have available space that is fitting for storage, but some do and it can represent a source of funds with little overhead or new resources needed to make it work.

The Particulars

Shopping centers with space designed for storage can offer unused portions at a price for

the short-term and long-term needs of their tenants. Landlords also could consider offering empty storefront spaces for temporary storage needs. Beyond that, shopping center managers sometimes



Turning empty retail space into storage units can drive ancillary revenue for property owners with little overhead or new resources.



Shopping center parking lots also are distinctly qualified to serve businesses and organizations with storage needs.

push more pro-actively for storage rental revenue and install mini-storage spaces on their property for tenant use or even for the use of others in the community.

Shopping center parking lots also are distinctly qualified to serve businesses and organizations with storage needs. The large number of spaces offers an enticement for those with an inventory of vehicles that exceeds their capacity. For instance, auto dealers are occasionally interested in using shopping center lots to stash vehicles they are temporarily unable to keep onsite. Shopping centers also can profit when the owners of a fleet of buses need extra spaces for parking their vehicles during overnight hours — when shopping center lots largely are empty. Nearby businesses or special events could pay for the spaces to help with spillover parking.



KEEP AN EYE ON

A potential downside is if a landlord commits a space to storage and then a better, more profitable opportunity for the space emerges. For instance, if a storefront becomes storage space for excess inventory for some tenants, landlords will

Kiosks' flexibility and affordable wares make them an important source of ancillary income.



want to be careful not to make that temporary use hinder the possible arrival of a new tenant.

Also, a shopping center with conspicuous signs of using spaces for storage could devalue its image with both shoppers and vendors searching for new homes.

THE OPPORTUNITY: KIOSKS, RMUs AND EXPERIENTIAL BRANDING

The Big Picture

The pathways that take shoppers from store to store do not have to be clear of commerce. In fact, those areas have become settings for big business with the rise of kiosks and retail merchandising units, also known as RMUs. These flexible retail units tend to emphasize affordable wares and a quick and convenient shopping experience, and they represent an important source of ancillary income.



Many brands view shopping centers as critical components of launching new product lines and embedding their brand experience into their customer base.

The Particulars

As with temporary leasing, kiosks are attractive for startup brands and some retailers with a seasonal line, but they also are tools favored by a number of large chains, including some who focus their retail efforts on RMUs. Landlords offer lower rents and the RMU operators get a daily population of shoppers effectively passing through their stores. RMUs require few resources from shopping centers and add to the experience of shoppers who prefer to browse and take their time with an open mind.

Shopping center pathways also are natural venues for brands with experiential, one-time promotions designed to creatively engage with consumers in a fun and direct fashion. Many brands view shopping centers as critical components of launching new product lines and embedding their brand experience into their customer base. These brands might hand out free samples and allow customers to test out their products during their limited time appearances. Auto dealers have long paid to park new cars in shopping centers, often allowing passersby to check out a new vehicle in a low pressure environment.

Landlords should work with brands to tailor these



Special kiosks or other RMUs that encourage engagement from consumers with a product help lend a shopping center a dynamic, vibrant quality.

events to the demographic of shoppers they attract and to a shopping center’s unique physical setting. Special kiosks or other RMUs that encourage engagement from consumers with a product help lend a shopping center a dynamic, vibrant quality.



KEEP AN EYE ON

RMUs are not somehow separate from the tenant mix — their fit into the larger shopping center’s offerings must be weighed with the same care that the inhabitant of a storefront would be. Their placement should ensure that they are a natural fit with the stores in the immediate vicinity, so that instead of siphoning off customers from each other they create a more harmonious relationship. An RMU’s location also should not impair the flow of foot traffic, impeding shoppers as they navigate a shopping center’s layout.

THE OPPORTUNITY: TELECOMMUNICATIONS

The Big Picture

Our connected world has created demand for both wireless Internet and the infrastructure that powers it: rooftop antennas and cell towers. Shopping cen-

Landlords are usually approached by carriers to lease space for communications towers, but with some research, a property owner can seek to build those relationships proactively.



ters can use their properties by leasing space with telecommunications carriers for this critical infrastructure and witness a significant boost to ancillary revenue. In addition, landlords should look at the best way to offer wireless Internet connectivity to visitors – but without alienating them.

The Particulars

Telecom carriers often install wireless equipment on private properties, cutting the landlord a month-

ly rent payment from the provider for the space. Landlords are more often approached by wireless carriers for this space, though with some research you may look to build relationships with regional carriers to let them know your availability for future infrastructure needs.

Rooftop leases allow carriers to install panel antennas, amplifiers, cables, and other necessary equipment on top of shopping



Offering wireless Internet access to shoppers can generate ancillary income from advertising.

centers. However, depending on the land area requiring coverage, the rooftop may need to be a certain height to even be considered (property billboards, signage, or water towers might also be useful). A ground lease, however, allows for the construction of an antenna cell tower, typically ranging from 50-foot-tall to 300 feet or higher.

You can offer wireless Internet service to shoppers in one of three ways: free, paid, or supported by advertising. If ad-supported, users will be greeted with a login home page that offers deals and messages from sponsors. Paid advertising may earn you a few dollars, but creates a high barrier to entry for most.



KEEP AN EYE ON

Though they can improve the value of the property for potential suitors, cell towers can be unsightly, and give your property a more industrial vibe that can clash with your center's



You stand to make more ancillary income by offering ad-supported Wi-Fi opportunities to both tenants and the external business community.

brand. They also require a significant ground area, anywhere from 2,500 square feet to quadruple that amount depending on the height and coverage required. Your negotiations with the wireless carrier will also need to determine who is responsible for zoning approvals, construction, upkeep, early cancellation provisions, and numerous other factors (suffice to say, you'll want to consult an attorney with experience in this arena).

On the Wi-Fi front, in this day and age, consumers expect Wi-Fi offered by businesses to be free, and forcing them to cough up a buck or two for Internet could be viewed as nickel and diming (consider they've already got cellular coverage and are simply looking to reduce their cell usage and save costs). You stand to make more ancillary income by offering ad-supported Wi-Fi opportunities to both tenants and the external business community.

THE OPPORTUNITY: SIGNS AND ADS

The Big Picture

Signage throughout shopping centers represents sought-after real estate, both for tenants and for other advertisers. The advantages are obvious: heavy

Selling advertising space on prominent signage can produce additional revenue for shopping center owners.

traffic of a captive audience of consumers, many of them already prepared to spend money. Property managers shouldn't miss the opportunity to cash in on the opportunity that creates. With their invariably steady supply of eyeballs, shopping centers make sense as targets for both national and local advertisers. And don't forget the tenants themselves — sometimes they are eager to spend extra for in-

creased exposure near their retail homes.

The Particulars

Pylons

Pylon signs are the large advertising signs stationed near street intersections or the main entrances to shopping centers. Their prominent placement helps them stand out in the midst of automobile traffic, road signs, store-

front signage and the many other distractions that battle for the attention of passersby.





Technological advances have made it more feasible to integrate digital signage into the shopping center environment in a way that feels natural to shoppers and proves impactful to advertisers.

Landlords should aim for tenants to pay for the privilege of a pylon sign when possible through purchasing advertising space on it. Advertising revenue from the pylon can cover a variety of costs associated with the sign, such as fabrication, installation, permits, utilities and maintenance. Landlords may also be able to negotiate terms for rental income for the sign, though anchor tenants sometimes receive that benefit as part of their contract.

Often some of the biggest players in a shopping center will build free spots into their leases, but the rest typically will not and landlords can spark mini-bidding wars for any remaining vacant spots.

Digital video media boards

Technological advances have made it more feasible to integrate digital signage into the shopping center environment in a way that feels natural to shoppers and proves impactful to advertisers. In fact, technology has become so embedded in our daily lives that we gravitate toward that element when we encounter it.

Digital boards and signage within the shopping center environment can help direct visitors to other parts of the shopping center to help attract attention for retailers, but it also is a prime way for various

brands to reach consumers with advertising. The brands can be related to a shopping center's offerings, such as a perfume sold at a tenant department store, or they can be unrelated, such as a new automobile line or a big-budget movie about to have its premiere.



It's not only the most prominent signage that can generate ancillary revenue. Look for opportunities in less-considered spaces, the sides of trash cans and the air above escalators, for instance.

Other Ads and Creative Sponsorships

Beyond pylons, digital boards and storefronts, the shopping center landscape offers innumerable other opportunities for ad placements that are both distinctive and well-integrated — and effective enough for advertisers to want to make the investment.

Pricing, of course, will vary with size and placement of ads, giving potential buyers options that best fit their spending appetites.

Locations that will catch the gazes of shoppers are everywhere, from the sides of trash cans to the air above escalators, where banners hanging from the



A clear issue with introducing ads and sponsorships from non-tenants into a shopping center is the risk of promoting competitors at the expense of your tenants.

rafters will inevitably attract stares. Smaller portable ads can be moved into pathways, and placards can be placed on walls near elevators and stairwells. Large, blank surfaces, such as the sides of parking garages, can accommodate something more ambitious. In addition to outside advertisers that prize the crowds, some tenants will pay for ads near their store entrances.

Creative sponsorships represent a related opportunity. Landlords can offer naming rights to sponsors for rooms or featured sections of a shopping center, such as a children's play area, or for seasonal features, such as a temporary ice rink. Some auto brands will even sponsor convenient parking spaces available only to drivers of their vehicle lines.



KEEP AN EYE ON

A clear issue with introducing ads and sponsorships from non-tenants into a shopping center is the risk of promoting competitors at the expense of your tenants. This is particularly true for large landlords who are more likely to be tied into national advertising contracts that do not account for the particular inhabitants of a specific



Ancillary income improvements can help any shopping center, no matter its occupancy and level of success.

facility. Shopping center operators especially will want to be careful about offending influential anchor tenants by providing conspicuous advertising to a competitor — and diminishing a crucial relationship in the process. Also, landlords will want to keep in mind the environment they hope to cultivate for visitors. Chasing too many ad dollars could lead to a cluttered, busy atmosphere that feels less warm and welcoming and more aggressive and suffocating than is intended.

IN CONCLUSION

Ancillary income sources merit a close inspection from shopping center operators determined to bolster their bottom lines and remain competitive in an eternally challenging marketplace. Only a strategic effort will do, though, as well as a genuine commitment to thoroughly exploring potential income sources — a half-hearted approach is guaranteed to yield only middling results.

Ancillary income improvements can help any shopping center, no matter its occupancy and level of success. Shopping centers filled to the brim can turn to ancillary income when it proves difficult to



grow in more traditional ways, while those facilities struggling with vacancies can explore income opportunities outside of leases to help fill the gaps left by missing rents.

Property managers exploring ancillary income should be creative but careful while always remembering the importance of having a plan. The risk exists of pursuing new income and inadvertently undermining a core income source that is much more consequential.

Still, meaningful contributions to revenue from ancillary sources — contributions that are more

than mere gimmicks — can help shopping centers manage their debt service, providing them with a steady form of income that helps pay the mortgage every month.





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