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Right Mix of Business Tenants

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As a property manager it is your responsibility to make sure your property is a stable community that can function harmoniously. This is easier said than done, especially with commercial properties. For property managers facing the challenge of selecting the right mix of business tenants for a commercial property, here are a few useful

tips.

Plan for a Few 'Guests'

One helpful way of approaching tenant selection is to think of it as inviting the right group of people to a social event. "Getting the right tenant mix really is very much like creating a guest list for a large dinner party," says Braun Mincher, president of Aggie Properties in Fort Collins, Colo. Bringing in the wrong tenant, just like inviting the wrong kind of dinner guest, can have a huge impact on your property's environment.

Unfortunately, many property managers suffer from a fear of having an empty building, which often spurs hasty leases with inappropriate tenants. For example, situating a night club by a retirement community, is not a good idea, even if you're faced with multiple vacancies. The solution is to be more discerning in terms of tenant selection. Even though tenant selection may be harder today due to the challenging economic climate, populating your building with the wrong kind of tenant isn't the answer.

Despite the additional time and energy careful tenant selection will require, it's worth the effort, "The right tenant mix attracts more customers. It offers more convenience to shoppers" says Mez Birdie, director of retail and investment services for Maitland, Fla.-based commercial real estate specialist NAI Realvest.

One approach to selecting the right tenants is to "look for businesses that are complementary, not a mish-mash," suggests George Traikos, president of Traikos Real Estate Group in Florida. A tire shop might slot nicely next to an auto parts retailer, for instance, but neither of those has much in common with a retailer of fine wines. In an office building, similar logic applies. Some tenants attract long streams of visitors – and others operate in comparative isolation. Pair tenants up with sensitivity and imagination and good results should follow, says Traikos.

Another approach to finding the right tenant mix is to do your research whenever there is a vacancy, especially if you're trying to fill a new building. Look closely at the demographics of the area and your target marketplace. Think about the neighborhood and try to picture who your ideal tenants might be. An upscale store is ill suited to a low-income neighborhood.

Achieving the right mix of tenants should not come at the cost of diversity. Avoid homogeneity when it comes to selecting businesses. Adam Robbins, a commercial real estate specialist with Manhattan Living Realty in New York, suggests diversity in order to stay insulated from the effects of an economic downturn within a specific industry. "Like a stock portfolio, a good mix of tenants usually means that your asset is not heavily weighted towards one type of industry," says Robbins.

Leases sometimes reinforce a push for diversity by excluding competitive tenants (if an existing tenant has negotiated this clause), adds Mincher, and that may offer a complication in filling out a rent roll. But, suggests Robbins, the plus side is that creating a diverse tenant list means the rent roll is likelier to weather rough economic times.

Ultimately finding the right mix of tenants is more art than science. You can combine various strategies to come up with the right combination of businesses for your property, but sometimes the most effective tactic is intuition. "Listen to that little voice inside," Traikos says.

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