

# CHAIN STORE AGE®

THE NEWSMAGAZINE FOR RETAIL

APRIL 2009

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A LEBHAR-FRIEDMAN® PUBLICATION



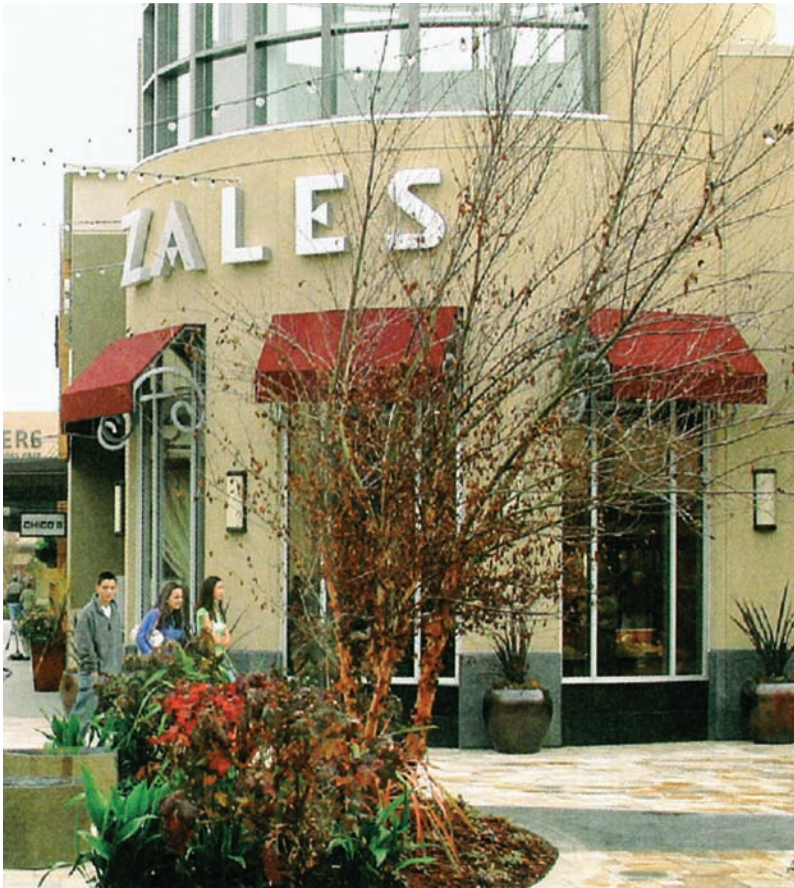
## Dollar Saving Strategies

Smart Tactics for Tough Times

A full-issue report



# Cut occupancy **costs**



For retailers like **Zale Corp.**, which recently announced cost-reduction initiatives, lease negotiations and terminations can be one of the biggest measures to consider.

**S**lashing big expense delivers big bottom-line impact. And occupancy costs are one of the biggest expenses a retailer has, in addition to cost of goods sold and payroll. While many retailers are struggling to stay in business, reducing occupancy costs can be a much-needed boost to profitability.

According to Mitch Friedman, senior VP, RCS Real Estate Advisors, New York City, the first step retailers must take when considering the reduction of occupancy costs is defining what the proper occupancy percentage to sales should be in order for the business to be profitable.

"To determine occupancy costs, retailers must first perform a thorough analysis of the entire retail real estate portfolio and evaluate the occupancy-to-sales ratio," Friedman explained. "Once the optimum occupancy percentage is established, each

location must then be examined to determine how much its occupancy costs exceed the optimum percentage for viability in order to determine the next step."

The next step, Friedman noted, should be executing one of the two following occupancy-reduction tactics:

**Rent renegotiation:** In this case, a retailer needs to consider the expiration of each lease. If a lease is near term (expires within 12 to 24 months) the retailer should contact the landlord to discuss the possibility of renegotiating the terms of the lease. Ideally, the landlord and the retailer will reach an agreement that reduces the rent enough for the location to become profitable again and extends the lease beyond the original 12 to 24 months, resulting in a long-term tenant for the landlord.

**Rent termination:** If a retailer determines a location cannot be profitable through any amount of rent reduction, the landlord should be contacted to discuss a cost-effective termination of the lease. Often, with a lease termination, the retailer must commit to a buyout or lump-sum payment to the landlord allowing the retailer to close the unsuccessful

location and giving the landlord an opportunity to lease the space to a new tenant, possibly through more profitable terms.

"It is important for the retailer and landlord to work together to find a solution that benefits both parties," Friedman said.

If the two parties are unable to negotiate a reduction in the retailer's occupancy costs, the retailer must then evaluate and determine the overall viability of the business and consider strategic alternatives for keeping it alive.

"That may mean securing additional financing through loans, seeking outside investors to put money into the company, selling the company, or filing for bankruptcy," Friedman added. "Unfortunately, in this current economic downturn, without the benefits of rent renegotiation or termination, retailers' options are shrinking." ■