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VENDOR PROFILE

Retailer Survival Guide

Evaluate your portfolios with an eye toward profitability

By Katherine Field

It's crunch time, and do you know how your real estate is performing? Never before, say the experts, has it been more important to evaluate your portfolio and understand precisely where you sit in terms of occupancy percentage. In fact, your survival may depend on it. Senior editor Katherine Field talked with Ivan Friedman, president and CEO of New York City-based RCS Real Estate Advisors, a firm that specializes in helping retailers evaluate their real estate portfolios, shed underperforming stores and trim occupancy costs. Friedman discussed profitability tactics for strong—and struggling—chains.

Q Is it too late for retailers to evaluate their real estate?

It's never too late. Most retailers will only analyze their real estate when the economy is bad; however they should really get in the habit of evaluating their portfolios during the good times as well. It is during the good times that landlords are under less pressure and are willing to look at situations more openly because they're not being inundated with calls from troubled retailers. As a result, retailers are able to better position themselves for whatever lies ahead.

Q What can retailers do with their real estate portfolios now to increase their overall profitability?

First, they need to conduct a proper analysis of their real estate portfolios in order to define the optimum occupancy-to-sales ratio for the business to be profitable. Once the optimum occupancy percentage is identified, each store's occupancy costs must be evaluated to determine whether the store is viable, or can be viable with a little help from the landlord. For some stores exceeding the optimum occupancy percentage, the way to increase that store's profitability might be renegotiating the terms of the lease. For others, a lease termination might be in order because there's just no way for that store to be profitable even with renegotiated terms. Either way, retailers must go to their landlords to find the best solution. And, ideally, that solution will be one that is advantageous for both parties.

Q Are tactics for a financially troubled retailer different from the tactics of a retailer that is financially stable?

Absolutely. Retailers in a more severe financial situation will be a higher priority to landlords. If a landlord sees that a retailer can survive with renegotiated lease terms, the retailer is seen as a viable tenant and the landlord will be more willing to work with that retailer to keep that particular store open and, in turn, keep their centers from going dark. If, however, the landlord sees that no matter what adjustments are made to the retailer's lease terms that company is ultimately going to fail, the landlord may not be willing to compromise. Financially stable retailers should be focusing more on their short-term renewals and lease extensions. This is where they'll have room for negotiation, because the landlord will want to keep these tenants long term.

Q What changes can retailers expect over the next 12 to 24 months?

I think, as we get deeper into 2009, we are going to see stabilization in the economy, so that by 2010 and even into the first part of 2011, things will turn around and improve. This is when retailers can again expect landlords to be more open and willing to work with them, because they'll have fewer calls coming in asking for concessions.

Q What indicators should retailers watch for to signal those changes have begun?

They'll need to keep an eye on sales trends. In particular, sales trends compared to prior-year sales of that same period. Once we see an uptick in sales, the stabilization process will have begun.

Q How can retailers prepare for those changes?

They have to stay ahead of the curve. What that means is that they need to closely watch for indicators and be reactive to them in real time whether things are going up or down. Retailers need to keep their inventory levels, staffing and expenses adjusted according to their sales. And again, they need to have done a recent analysis to really know and intimately understand how their real estate portfolios are performing. ■

