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Getting your retail portfolio in shape to run the course

June 16, 2008 - Shopping Centers

I am a retailer's dream. I shop quickly and often. I have a hectic life that requires an expensive and varied wardrobe: MaxMara business suits, Anne Fontaine blouses, Donna Karan hosiery. I have four kids who collect stuff. They like their closets filled, and are endlessly replacing their IPODs and phones and laptops. Apple's eye so to speak...My home is kosher, and I entertain often, so we possess more tabletop than a small store has on display. In short, I buy, I consume, I own. BUT, I do not need any of it. None of it. And therein lies the problem we are facing in our retail sector now.

The American consumer who had been blindly buying these last few prosperous decades is realizing that he does not need a thing. Our closets are full, our cabinets are full, our shelves are full, our garages are full. And if we shopped for recreation, as a sport, that hobby is much less fun when our wallets feel lighter.

Perception is reality. Even those who may be earning more money this year feel poorer. We are reading depressing headlines that inform us there were 250,000 home foreclosures last month alone. We know people who have been laid off. Our teen-aged kids cannot find paying summer jobs. It costs us more money to fill a single tank of gas than ever before. And the price tag to feed our families has skyrocketed to the point that with my kids home from college for the summer an average grocery store transaction requires a manager's approval.

Why would I now go buy another pair of shoes or yet another white shirt?

It is against this backdrop that retailers are closing stores in unprecedented numbers. But these closures may merely be the iceberg floating above the water, the sign that something far more piercing lurks below the proverbial surface. For every retailer who has publicly announced that it is closing stores, there are a myriad of others who are renegotiating their existing economic deals with both landlords and lenders. Savvy businesses understand that paying a disproportionate amount of store-generated dollars as rent and occupancy charges threatens their continued viability. And this bleed will slowly convert the profitable store to an under performing one. which will then eventually need to be shuttered. And so these smart tenants are asking for rent relief. They are reworking their leases. They are trading their deals. It is fairly easy math: if fewer shoppers are buying your goods, then expenses need to be shrunk to keep the store afloat. And if the landlords are true joint venture partners in the shopping center enterprise, if the financial success of the ownership and development communities is inextricably bound to the performance of the retailers, then if tenants are taking a haircut, then the smart landlord will realize he must take one too.

I visit retail companies for a living. I help them rearrange and reposition what is not in perfect alignment. And, I help them acquire new locations, sometimes in exponential windfalls, as they cherry pick amongst the locations being abandoned by others. Essentially, I move the chess pieces around the retail board.

And, as I speak with executives who manage and perform the real estate and financial functions for hundreds of our nation's retailers, I see a clear and perceptible shift taking place on the retail landscape. It may not be an epic earthquake that rearranges our fundamental lives, but it is sending tremors and quivers that are affecting all of us to varying degrees.

We now need to protect the existing infrastructure. We must reinforce what is solidly in place before more pieces tumble down. Would a landlord rather deal with a dark space in a marginally productive shopping center that will have a difficult time attracting a replacement tenant or keep the tenant that wants to operate its store provided he pays less rent so he can keep more change in his own pocket? And what of the co-tenancy clauses that we were all so busy negotiating in the boon times? Are we not all, landlords and tenants alike, obligated to work together to help assure that more domino's do not fall. If certain companies have filed for bankruptcy protection, if others are teetering on the brink of collapse, then we need to buffer those retailers that are still strong but may require financial relief in order to remain healthy. Restructuring leases is the perfect tool to accomplish this. Everyone wins: the tenant, the landord, the retail industry, and the American consumer.

And if that next white shirt is marked down, I too may be lulled into the purchase. Good deals make sense. For all of us.

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