



DEAR LANDLORD

Empty shops are ugly. For landlords, they represent lost income; for tenants it may be business failure and for shoppers it's simply not a good look. Establishing strong relationships with landlords is a good way for retailers to avoid this situation.

Some retailers looking for a silver lining in the recession have found one in their greater bargaining power with the landlord.

For most of the last decade, landlords ruled the roost when it came to setting lease terms and rents and, in the good times, most retail tenants tolerated landlord demands.

Not that they had much choice as landlords had plenty of alternative tenants.

But the recession-induced, weak leasing market has helped put the boot on the other foot. Retail tenants

are adopting tough bargaining positions as they look to reduce costs to cope with falling sales – often leaving landlords over a barrel: either give the tenants what they want or lose them – either through them going off and finding a landlord who will meet their demands or watching the business go under.

In the Auckland Newmarket fashion hub where, traditionally, there have been few (if any) vacancies, there has been an increase in empty shops.

As an example of what is happening, a 110m² shop on Auckland's Broadway was getting \$1000/m² early last year but, by December, the owner was

considering offers of \$820/m² – plus three to four months rent-free **and** a fit-out contribution thrown in.

Bayleys Research has calculated that, nationally, there have been concealed rent cuts of 20–30 per cent which represent a 33 per cent decrease in value on investments for landlords. This year will not see any respite for landlords – in fact, the tenant's boot could get even bigger.

BIGGER BOOTS

With analysts predicting a market-wide increase in vacancy rates, there will be good sites and good deals out there for those that want them. Paul Keane,

executive chairman of retail property specialists, Retail Consulting Group, says the first three months of 2010 will be very difficult for some landlords.

Retailers will also find it tough, he says, but at least they will get off to a good start with sales boosted by the traditional strong trading over Christmas and New Year.

Currently, relationships between landlords and their retail tenants are underpinned by this tension between the former wanting a good return on their investment and the latter struggling with profitability.

"It's a difficult time for both parties.



“Since the recession, retail tenants have been going to the landlord and asking for rent relief and landlords have been giving some concessions,” says Keane.

The other negotiable items are occupancy costs and the length and terms of the lease. Another pressure point for landlords is retailers’ downsizing.

His advice to landlords is to listen carefully to these requests if they want to have a long-term relationship with their tenants. “But, there will be short-term difficulties because landlords are still coming to grips with the fact that, if they want their tenants to survive, they need to help them do so.”

He says this is new territory for most landlords. “They won’t have struck this situation before.”

RECESSION SURPRISE

Aubrey Cheng, a director of Match Realty, says the recession caught some landlords on the back foot, forcing them to offer more realistic deals to keep and attract tenants.

Match Realty sits in the middle of negotiations between landlords and tenants so was ideally placed to see the situation unfold. “Some landlords didn’t pick how hard it was going to hit retail, though retailers saw it coming early,” Cheng says.

“The smarter tenants started talking to

their landlords about this and were able to work something out before they tipped over.

“From the landlord’s perspective it’s better to keep an existing tenant than find a new one. Smarter landlords have been prepared to work with the ‘right tenant on the right strategy’ with the longer-term, holistic view in mind.”

NOT ALL EQUAL

But, as with retail itself, the buffeting from the recession has not treated landlords in all parts of the retail rental sector equally.

Ed Donald, retail sales and leasing manager for Bayleys, says prime strip properties – areas such as Wellington’s Lambton Quay and Broadway – have taken the largest percentage hits in terms of reduced rental income.

“Their vacancy rates are not huge, but they have risen. The high quality retailers in these areas now have choices which give them leverage in negotiations with landlords.” As a result of this pressure, landlords are offering rent holidays, cash inducements and fit-out contributions.

Donald says it’s a slightly better story for second-tier retail properties – such as suburban shopping centres – where rentals have softened less as opposed to prime properties: he suggests by around 10 per cent.

“It’s the third-tier properties that have fared best,” he says. “They are chugging along quite nicely.”

CHANGING BEHAVIOUR

Bill Wallace, chairman of the Downtown Centre in Palmerston North, says there is no doubt that the recession has changed the supply and demand curve for retail space.

“Normally, demand exceeds supply but, on the demand side, retailing has become more difficult so fewer people are getting into retail – and on the

supply side, there’s been less investment in retail concepts.

“The chains are also more circumspect about opening new stores.”

He doesn’t believe this situation has given tenants more power – “that still exists with the people who have the space.

“Rather, tenants have real authority to get what they want.”

Wallace says the recession has driven a more hard-headed approach by retailers. “In the past, retailers have

COUNCILS

Councils could do more in regional cities. Many provincial cities have a shortage of quality retail sites, says Splash Communications retail researcher Martin Craig.

“The sites that are available are often 100m² or smaller, typically with a narrow frontage. National chains want a store of 150–200m² and want enough frontage to suit the same window displays they are using in malls and other centres.”

He says there is a constant balancing act going on in regional cities between encouraging bulk retailers while maintaining main street shopping centres.

“I don’t think many provincial shoppers or councils realise that their local retail mix is often determined by luck. Many national retailers will come to a town if a suitable site becomes available.

“If a suitable site pops up in another town, the chain will move in there instead. Councils can encourage a diverse retail mix by being flexible with landlords in allowing them to modernise and by being flexible with retailer choice of location.”



been more inclined to look at sales rather than costs. Now, they are a lot more focused on their bottom line and not just turnover.”

The recession has also induced a change in attitude among landlords, Cheng says. “Now we’ve started to see landlords valuing the tenancy package, not just the rent.

“Five years ago, rent mattered the most.

“A good landlord cares most about the tenant’s covenant – can they pay? Do they add to the mix? Do they have nice fit-outs?”

Cheng says, in terms of helping to save a tenant’s business, it’s also not always about the rent. “Both the landlord and tenant should be trying to find ways to turn things around. It could be a bit of paint or some more marketing.”

RELATIONSHIPS ARE KEY

Good relationships between landlords and tenants can help prevent the ugly sight of an empty shop. Keane says vacant shops are no good for landlords, so they need to work at establishing relationships with their tenants.

“Landlords can ignore the tenant’s problems and watch them go broke and then have to fill that space; or they

can figure out that it is better to get 15–20 per cent less than nothing at all.”

Landlords and tenants need to sit down and create a win-win situation. A long-term approach to a relationship is a good start, Keane says.

“There are some landlords out there who ignore the tenant. They haven’t done any maintenance for five years and never visit. They will find it difficult to retain tenants when their lease comes up for renewal.

“Tenants won’t forget about the neglect.”

When it’s time for the inevitable rent review, long-suffering tenants are likely to remember the times the landlord unjustifiably bumped up the rent or didn’t do promised maintenance. But, Keane emphasises, tenants also have responsibilities. “It cuts both ways.”

Tenants have a responsibility to make sure they don’t catch the landlord out with surprise bad news. “If they don’t know what is going on, how can they properly service your account?”

“Landlords don’t want retailers turning up and saying they are going bust.”

Wallace says that, in other shopping centres, he knows when a business is failing because he sees the monthly sales

TO LOVE AND CHERISH – RELATIONSHIP TIPS

The advice from retail real estate experts (from both sides of the fence – and on it) is for retailers to work on establishing fruitful, long-term relationships with their landlords: for better and for worse. Their tips include:

Don’t get carried away with your new-found bargaining power because, as they say, ‘what comes around, goes around’.

Try to figure out how you can create win-win situations.

Make sure there are no surprises. Keep in touch with your landlord – “Go have a coffee.” Perhaps the landlord can help you through your difficulties. At any rate, they don’t want to first hear that you are in financial trouble when you come to tell them that you are closing.

Be truthful with your landlord and back up your claims.

If you are in financial trouble, demonstrate to the landlord that you are trying to save your business.

Get advice on a lease’s terms and conditions. You need to make sure you understand what you are getting yourself into.

Talk to other retailers. Learn from them and find out if you have common ground. You may also be facing a collective problem.

Get your relationship off to a good start by making sure you get a good lease – that’s the key document. As a rule of thumb, occupancy costs (rent and operating costs) should be around 10 per cent or less of gross sales.

figures. “If a business is at risk, we sit down with them to help them stay afloat.”

Turning the business around requires a combination of the landlord looking at

what they can do, like providing more pedestrians passing the shop and the retailer looking at what they can do with their business.

MATCH 2009 RETAIL RENTS*

City Strip	Rent \$/sqm
Whangarei Cameron St	\$400-\$600/sqm
Auckland Broadway/Newmarket Queen St High St Ponsonby	\$1200-\$2000/sqm \$1500-\$2500/sqm \$1000/sqm \$600/sqm
Hamilton Ward	\$400-\$700/sqm
Tauranga Devonport Rd	\$400-\$700/sqm
Napier Emerson St	\$400-\$700/sqm
New Plymouth Devon St	\$400-\$600/sqm
Palmerston North The Square	\$400-\$800/sqm
Wellington Lambton Quay Willis St Manners St Cuba St	\$1800-\$2500/sqm \$1100-1600/sqm \$500-\$800/sqm \$800-\$1000/sqm
Nelson Trafalgar St	\$600-\$900/sqm
Christchurch Cashel St/Mall	\$600-\$1000/sqm
Queenstown The Mall	\$1000-1500/sqm
Dunedin George St	\$700-1000/sqm

* Based on prime located sites only. Rents are estimated averages only and on net basis (exclusive of outgoings and GST). Based on normal retail premises of 75-150sqm, with good frontage to depth configuration.

SUPPORT AT WESTFIELD

Westfield Shopping Centres are an example of how landlords and tenants work together. Westfield's general manager, shopping centre management, Linda Trainer, says it takes a long-term view on the retail market.

"We closely monitor market conditions and continually work with retailers in regards to their businesses and the overall performance of our centres. Westfield retailers are supported by both national and centre-specific marketing initiatives to drive customer visitation in creating sales." It also has training programmes for its retailers.

She says the company works with retailers individually, through both good times and times of uncertainty, taking into consideration their individual circumstances and needs. ■

By **Mike Booker**, a freelance writer based in Paremata and a regular contributor to *NZRetail*.

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Participation deadline is 12 February 2010.

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