Lease smarter, not harder

Food and beverage has been the flavour of the decade! Our centres have expanded the component beyond what was considered possible only a few years back. But there are still opportunities, especially in the smaller centres; as well as some mistakes…

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This article was inspired by a recent conversation with a client that went something like this: "It's hard trying to attract F&B tenants to our new precinct when the bigger, shinier centre down the road is also in the market looking for F&B tenants. We're both trying to do deals with the same operators, but their pockets are deeper than ours". It's a common lament and, as all centres turn more and more to food as a major category to expand, that lament is one we're likely to hear increasingly often. At the same time, front page news has come out about several major F&B tenants entering into administration – Jamie's Italian and Max Brenner come to mind.

So, is it going to get harder and harder to lease F&B outlets? And how long will it be until there's too many burger outlets in a suburb or Soul Origins in WA? What we've witnessed and studied at B&P during the past five years of the food boom is a disconnect between the business of deals and the business of meals.

Deals versus meals

What happens in a boom is that there is a rush by suppliers to create a product that is booming – in this case the rush was to create more food brands – burgers, Mexican, sandwiches, dumplings, chicken, doughnuts, poke, Italian – the list grew and grew — with some categories doubling in number year on year. For leasing agents poring over lease plans, it became easier and easier to put names on boxes – so much so that property owners set about creating more and more space to fit all the F&B names on the plan. It was easier to do deals. What has been overlooked in the race to accommodate deals is that F&B tenancies need to sell meals and as humans, there are only so many meals we can eat. What is washing out now in many centres and suburbs is a case of 'over fooding'. In these cases, what we now have is more meals available than there are customers available — resulting in sales forecasts not being met and retailers seeking rent abatement or simply going under.

As the foodie boom starts to reach saturation point, it is going to get harder and harder to get F&B deals away so here are five ideas B&P has developed and implemented for the smartest property owners to actively manage the assets and work smarter, rather than harder, on the F&B component of asset plans.

No one wins when tenancies don't hit their numbers

1. Sustainable volumes – don't slice the pie too thin

As humans, we can only eat so much (it's recommended we try to consume less than 9,000Kj a day) so while there has been a food 'boom' in terms of more operators to do deals with in the past five years, what every food outlet needs is 'bums on seats'.

Understanding the reality of how many mall customers by day and trade area residents by night you can actually convert to becoming a food customer is the first step in ensuring you go to market with the right amount of outlets to ensure everyone can trade and keep paying their rent. We are certainly gathering evidence at present of centres that have 'over fooded' and are now suffering the consequences of vacancies, virtual vacancies and rent abatements.

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You've gotta sell a lot of food bowls to pay the rent

enough, it turns up everywhere from the airline and soft drink market share to the 5:2 diet! And sure enough, it also applies to lease planning. When we analyse cuisine performance across our database of hundreds of shopping centres, it becomes clear that 80% of the Food Catering MAT comes from about 20% of the cuisines. The kicker though is that those 20% of cuisines change from state to state and suburb to suburb (re-read our *SCN* article about Kerry Packer to refresh your memory on that!)

2. Understand the business plan – can the tenant make a profit and pay you rent?

With cafés and restaurants in Australia averaging $600,000 in MAT and hard-working operators making only 8% profit (that's a measly $48K per year); it's SMARTER to spend some time understanding the tenant's business case before inking a deal.

B&P fields more than 100 calls a year from landlords struggling with rent abatement requests and hoping we can turn the business around so the tenant can keep meeting their lease obligations.

Often, we can turn the business around, but one in every seven businesses we look at is impossible to turn around because the sales potential against rental base is out of whack. Most frequently, this occurs when restaurateurs try to become quick-serve restaurant operators or bankers break out to become foodies! When a poke operator has agreed to a rent of $130,000 p.a thinking that they will be able to turn over $1.3 million in a lunchtime only CBD food court – the business plan reality of that is they need to sell 250 poke bowls an hour. That means they need a counter that can house six staff making one poke bowl each per minute. You can see that by understanding the business plan and any flaws in this case could have saved both the tenant and the landlord big bucks and much heartbreak.

Just because it's popular in one centre doesn't mean it will trade well in others

3. Tenancy tier mix – the 80/20 rule of the lease plan

Remember that pesky Pareto principle you learnt in Year 10 maths – commonly known as the 80/20 rule? Well, funnily

That's why a portfolio-wide lease deal with some franchises and brands is causing problems for some assets. The same cuisines don't always do the heavy lifting, yet they have a heavy lifting rent attached! Chocolate cafés come to mind...

The best overall rental productivity

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comes from carefully crafting the 80/20 cuisine mix. Too often, the rent and MAT at a centre is depressed because there are too many cuisines coming out of the 20% side of the lease plan, rather than the 80% side.

4. Exit/hold/replace – can you work with what you've got?

Once a good 80/20 lease plan has been developed, smart asset management and leasing teams overlay the centre's lease expiry profile, tenancy schedule and, coupled with some insights into each retailer's capabilities, it becomes a 'smarter' way to work out which upcoming expiries should be re-leased, exited or maybe provided with assistance with a store refresh or visual merchandising training to take the retailer up to the next level. It's harder – not smarter – to get a new tenant, compared to helping a current tenant reach higher standards of excellence

From leased (above) to vacant (below) = harder not smarter

5. Sales maximiser – the best use of the marketing budget

We've tracked and measured that improved visual merchandising, customer service and cleanliness can drive at least 30% additional revenue to a food store's MAT – both fresh and food catering.

Smart Centre Management teams work on developing the skills of their retailers to become better rather than working harder on finding more customers. It's smarter to convert a customer already in the centre to become a food customer, rather than finding a new customer. Fresher looking stores, with bubbly, attentive staff and abundant, well ticketed food displays creates impulse sales from mall customers. Programs like the Sales Maximiser that teach retailers and their staff how to present themselves and their store for maximum appeal are a low-cost investment with high ROI.

Do you pick smarter or harder?

So if you're finding it hard to find new food tenants and feel like it's hard work, try some of these smarter ways to fill your centre with high demand, well-operated foodies and reap the benefits of a full rent roll for the full lease term. **SCN**

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