



## When to hold 'em

For many franchisors, the real sting of occupancy cost is felt when leases are renewed. Franchisors usually assume the property risk, holding leases for retail space and giving franchisees an operating licence. They believe this model gives them the cornerstone of a business to sell to a franchisee, greater operational control, and an exit strategy.

Landlords like it because it effectively means the franchisor is underwriting the franchisee. But both franchisor and franchisee can feel the sting when leases are renewed. Franchisors say it is at this time that landlords seek much higher rental increases.

It's a particularly acute issue for Boost Juice, which has just begun the first cycle of lease renewals for its 175 stores around the country. "It's an ongoing issue that I don't

see changing," chief executive Simon McNamara says. "It's always a constant battle with landlords thinking they can get more out of you. It's usually about 3 per cent different. If we feel we can afford to pay 14 per cent occupancy cost, they feel we can pay 17 per cent."

However, McNamara points out that the only franchisee abandonment in the network was from a profitable store, and not due to rental increases. "At the end of the day, an operator has more effect than the landlord will."

Trios sandwich bar managing director David Elia hasn't experienced any rental decreases at market review time in the past eight years. However, he has also yet to walk away from an established store because of higher rents. He has passed up opportunities for sites within

shopping centres, waited 18 months, then been offered the same site at a reduced rental.

"If it is at a point where you can't afford it, I'm not going to hang on to it," Elia says. "We believe each tenancy of ours needs to work to be profitable. We're not going to carry tenancies that are not."

Elia doesn't believe relief from occupancy costs will appear in the short to medium term. UrbisJHD director of research Michael Baker agrees.

He says more retail space might mean lower rents, but huge amounts are unlikely to be built. "More than half of the new supply in recent years has been for bulky goods. Retailers would like a lot more retail space to be developed. But we shouldn't expect it because the development community doesn't have the upper hand in terms of [planning] policy."