

Entrepreneurs

Location, Location, Location

Choose a commercial retail space that suits your business

By Marcia Wade Talbert



Finding the right location for your small business may seem as simple as finding a place you can afford. Whether it's a kiosk, storefront, mall store, high-profile flagship, or suburban stand-alone, not every location is suitable for every business. But before you make a commitment, make sure you are aware of the advantages and disadvantages of leasing one type of location over another.

Where you settle down, your proximity to other stores, and the demographic of nearby shoppers can determine how well your product or service sells, but the lease you sign will determine how much you actually profit.

Before signing a lease, find out the mall developer or landlord's "occupancy cost to sales ratio," says Barry Wright, a commercial real estate broker at Newmark Knight Frank. The OCR is usually the aggregate cost of rent plus expenses for all tenants of a certain size divided by the total sales of those tenants. The OCR helps developers decide how much to charge each tenant for rent. If the area's OCR is high then you might not be able to sell enough merchandise to afford the occupancy costs.

"Occupancy cost ratios vary for each property type and merchandising category. High-margin retailers, such as jewelry stores in regional malls, can have ratios in excess of 20%," says Faith Hope Consolo, a retail broker at Prudential Douglas Elliman Real Estate in New York.

Exposure is also an important standard by which to measure a possible location. Most businesses require high exposure to foot and vehicle traffic, but there are some businesses where location is not as important, and traffic can be drummed up through word of mouth and the brand's reputation. Ask yourself who are your customers and what will lead them into your store. Based on that answer, find out if you will be able to generate sales and maintain healthy profit margin at this location? Finally, find out if the zoning for the area permits your type of business.

Here are five commercial facilities to consider when choosing what suits your business needs:

Kiosks (Average National Rent: Varies by season)



Kiosks are short term, temporary investments that are typically placed inside malls or subway stations where there is a lot of foot traffic and high visibility.

"Because they're short-term, rents are all over the place, depending on the time of year and location," says Consolo. "I've seen rents of well over \$1,000 per week for a good location during the holiday selling season, dropping to two thirds of that during off-times."

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Some kiosks are great for retailers who want to test the location without making a major financial investment. Because kiosks are small, businesses that lease kiosks are limited to selling merchandise that is also small. Typical products sold from kiosks include hair and jewelry accessories and small electronics.

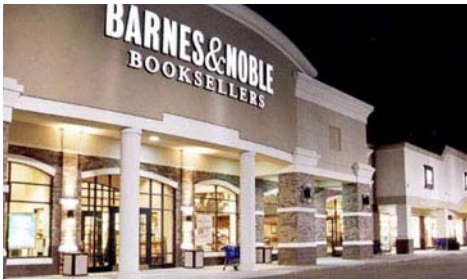
Storefronts and Outdoor Strip Malls (Average National Rent: \$16.99 per square foot)



Storefronts and strip mall stores are usually small, adjoining shops located in a concentrated retail shopping area with exterior entrances. Storefronts often cater to customers who reside nearby and who pass the area on their daily commute. “A [storefront] or small strip center is much cheaper than being in an [indoor] mall, but you also don’t get as much exposure,” says Kazuko Morgan, executive vice president for Cushman & Wakefield, a global real estate brokerage company.

However, if you sell high-demand, niche items available only through your store, then upscale, discerning shoppers will seek you out no matter your locality or price point. Otherwise, customer turnout will be dependent on foot traffic, which might decrease depending on the weather. Lack of parking might also limit the numbers of drive by customers.

Suburban Stand-Alone Building (Average National Rent: \$20.65 per square foot)



If you are considering a suburban stand-alone store, your product has to be strong enough to attract customers. Like storefronts, suburban stand-alone stores are more dependent on a local customer base and destination shoppers, Morgan says. Stand-alones do best if they are located near a major highway or mall and within the vicinity of other stores that sell complimentary products and services so that the store will benefit from their cross traffic, says Wright.

The benefit of this location is that initial rents are lower and tenants will have more control over their space, says Consolo. There is usually more parking, which can be both an advantage and a disadvantage for suburban store owners. Parking is almost essential for stores that sell goods, like furniture or electronics that can’t be carried home in a shopping bag. However, depending on the terms of the lease, the business owners could be responsible for the maintenance and upkeep to the parking lot.

Store in an Indoor Mall (Average National Rent: \$22.29 per square foot)



A mall store is located in an enclosed shopping center and is surrounded by similar sized stores, which are often sandwiched between large department stores. The advantage of the mall is that there are a lot of other stores there to help draw customers to you, says Wright. Parking is usually ample and most malls benefit from several public transportation lines that branch throughout the city, which means the pool of potential buyers could be larger and more diverse. Unlike store fronts, indoor mall shoppers are less deterred by seasonal weather like rain, snow or excessive heat.

“The problem with malls is [the leases] are expensive,” says Wright. They are much more costly than being in a stand-alone or small retail space.

Flagship Store
(Average National Rent: Varies by location)



The flagship store is a retailers’ signature store known to host the most visitors and carry the highest volume of merchandise. Flagship stores are often opened on a prominent street in a major metropolitan area. It is one of the most expensive location choices, but if planned effectively it can increase your brand’s visibility. Businesses in these locations should have already built a stable brand that has been tested and approved by a loyal customer base.

High exposure to foot traffic and tourists is the main advantage of opening a store in a high-profile location, but as a result this store will always need to be fully stocked and prepared to sell far more product than sister stores in malls or store fronts. Morgan advises businesses to consider whether they have enough resources to meet the demand of a flagship location before entering into a lease.