

TENANT'S PERSPECTIVE

Looking for a Larger Size

Flip flop chain looks for help in expanding its footprint.



STEPPING UP
Flip Flop Shops has aspirations to follow the growth trajectory of Sunglass Hut

Now that the real estate market has reached a measure of equilibrium between landlords and tenants, some retailers feel it's time to invest in more sophisticated brokerage services.

Flip Flop Shops, an up-and-coming franchise chain that focuses on casual footwear, is one such company. The chain kept expanding right through the downturn, but its reliance on a localized, general services real estate firm to handle its site selection needs was like "going to a podiatrist for brain surgery," according to CEO Darin Kraetsch. The real estate services provider managed to secure some good deals for the retailer, but given Flip Flop Shops' major expansion ambitions and the strengthening of retail leasing fundamentals at core properties in recent months, it was time to turn to specialists.

"Although we got a lot of deals done, I think it was probably because, especially in 2008 and 2009, there was such a surplus of vacant space," Kraetsch says. "In 2010, it became obvious to us that we had to up our game."

In order to do so, Flip Flop Shops secured the services of Podell Real Estate Advisors LLC, a New York City-based retail real estate consulting firm, and Friedman Retail Consulting, an Oakland, Calif.-based retail real estate services firm that specializes in tenant

representation. The firms offered Flip Flop Shops a depth of experience in retail site selection and lease negotiations, national reach and, perhaps most importantly, strong relationships with the country's major retail landlords. Kraetsch says that he knew he made the right decision in picking the two firms when a Simon executive told him Josh Podell and David Friedman would always get a call back from the REIT's leasing people.

Flip Flop Shops' partnership with Podell and Friedman comes at a time when the chain is trying to diversify its store portfolio. So far, Flip Flop Shops has been signing leases primarily at regional malls and on urban streets. Going forward, the chain's management would like to open locations at theme parks, entertainment centers, cruise ships and airports as well.

One of the main drivers behind the chain's growth is demand from potential franchisees. While the nation grapples with employment woes, a lot of people have been opting to become self-employed entrepreneurs and many of those people have been contacting Flip Flop Shops for franchise opportunities, according to Kraetsch. From 2008 through 2011, the firm received more than 8,000 franchise applications. What's more, the downturn has proved to be the perfect time for healthy retailers to make economically favorable leasing deals. "I think that the availability of real estate has never been better than it has been over the last few years," Kraetsch says.

Who they are

Flip Flop Shops differentiates itself from other shoe retailers by focusing on flip flops and athletic sandals. It tends to attract more affluent customers than its product focus would suggest. Since the chain sells flip flops that can cost up to \$100 a pair, its shoppers want to invest in a certain lifestyle, not just a pair of comfortable shoes, according to Josh Podell, president of Podell Real Estate.

"It's a good time for them to expand because shoppers and landlords are looking for something new, fun and unique—and this hits all of those categories," Podell notes. "There is energy here and it's a lifestyle brand. Right now, everybody is looking for lifestyle concepts."

Flip Flop Shops' real estate model emphasizes flexibility. Its stores range from 500 square feet to 1,400 square feet and can work in a variety of layouts. It's willing to take plain vanilla boxes and pay for store

build-outs itself. Depending on the location, the retailer can set itself apart with more distinctive storefront design or go with a simpler model. For example, at most malls Flip Flop Shops tends to go with a rather clean aesthetic. At its Universal City, Calif. location, on the other hand, the storefront features a giant three-dimensional pair of flip flops.

The typical turnaround time for the retailer from the time a site is identified to store opening is about 120 days—lightning speed compared to many other chains. That's because Flip Flop Shops doesn't have a big in-house real estate department. After Podell or David Friedman, principal of Friedman Retail Consulting, identify a potential site, it's quickly reviewed by Kraetsch, Brian Curin, president of Flip Flop Shops, and Alan Woods, chief operating officer. Once the executive team gives their informal okay, Podell and Friedman work directly with the franchise operators.

"They can move really fast, faster than most national tenants I've ever worked for," says Friedman. "We don't go through a big formal real estate committee process. They are very smart, but very flexible so if a landlord has a space that's just gone vacant, we can turn it around really fast." Flip Flop Shops also signs 10-year leases, with multiple options—making it a fairly secure long-term bet.

Both Podell and Friedman note that it remains difficult to find available spaces, let alone discounts on rents, at class-A properties like Aventura Mall in Miami, where Flip Flop Shops would like to open a store. Since strong foot traffic is among Flip Flop Shops' main site selection requirements, Podell has been concentrating on searching for leases at the better-performing regional malls. At those properties, landlords have "really retrenched into their comfort zone" when it comes to negotiations, he says.

On the other hand, Podell has still been able to find good deals at the better class-B centers. At one such property, the landlord was happy enough to secure Flip Flop Shops as a tenant to pay for the cost of the build-out. In addition, at the beginning of its term, Flip Flop Shops' base rent will be so low it will essentially be occupying the space on a percentage rent basis. Podell describes the class-B mall as a "center where not every concept will be successful, but because of the customer that shops there, this concept will be."

Long-term plans

Eventually, Darin Kraetsch and his partners envision Flip Flop Shops reaching the same size as one of its favorite co-tenants, Sunglass Hut. Sunglass Hut currently operates about 2,000 stores around the world, including hundreds in the United States.

Today, Flip Flop Shops operates about 45 stores within the United States. In 2011, the company plans to open 27 stores, followed by 30 in 2012, "with no sign of slowing any time in the near future." By 2013, the chain would like to operate 236 locations globally.

Searching for sites outside its traditional regional mall model remains a top priority for Kraetsch. Recently, for example, Flip Flop Shops opened a location on the Las Vegas Strip. It would also like to be at Disney centers, at Lego Land properties and wants to explore cruise ship opportunities.

Airport locations remain high on the list as well. Kraetsch says the retailer is currently in negotiations for several stores at international airports. The airports offer several advantages—in addition to boasting high foot traffic and being a good place for impulse purchases by customers going on vacation, they are owned by municipalities and prefer leasing space to women- and minority-owned businesses, according to Podell. That should make it easier for a franchise operator like Flip Flop Shops to break in.

—Elaine Misonzhnik

BUILT FOR SPEED

The chain has a reputation of moving quickly in evaluating sites and opening locations.

