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# Your Bottom Line

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## How much rent should you pay?

Most professional photographers want to pay as little rent as possible, because it is a component of overhead expenses that can be minimized. But for some studio owners, this desire to operate out of a low-rent location may be a costly mistake.

How much rent studio owners should pay is primarily determined by the type of business they want to operate. For example, some image-makers work out of a basement or garage—for certain kinds of specialty photography, a residential setting may be the best location. Studios requiring commercial space are often located in areas where the rent is low, but customer traffic is minimal and the properties are less than ideal. Then there is a slice of photography studios located in prime, high-traffic facilities, but these operations are usually outlets for large national chains, not independent image-makers.

Why is the situation like this? Two potential answers are that photography cannot produce adequate gross profits per square-foot of floor space to afford the high rents associated with prime locations, and photographers generally shy away from high-priced locations.

An excellent method to understand the rent situation in your geographic area is to conduct a general business survey of your community. Drive and walk around the area with the single purpose of discovering where real retail business occurs.

The results are predictable. Businesses in the older, downtown section and less desirable areas are likely to be discount operations, "Ma and Pa" enterprises, and small specialty stores. Generally, these businesses earn minimal profits, just enough to squeak by. Conversely, the most successful establishments will be located in major shopping malls and strip centers, where the majority of shoppers live and work. Consumers travel long distances to these one-stop shopping meccas, because of their convenience and perceived strength.

After recognizing this fact of retail, you may begin to agonize on how impossible it is to pay the high rents charged for prime retail locations. But before dismissing this option, do some further research. It's

likely that many businesses in these high-traffic areas operate at a lower profit margin than the average photography studio.

For example, a clothing store usually issues a price markup between 100 and 200 percent of cost. It also carries a huge inventory, and when stock becomes too large, the business is forced to sell its merchandise at or below cost. In comparison, the professional photographer issues a higher price markup, carries little inventory, and seldom engages in price markdowns. The obvious difference between the two operations is volume. By serving a consistent number of customers, a photography studio can be profitable in a high-rent district.

Some malls charge as much as \$75 per square-foot of space per year, which is a high figure to justify. But many quality locations can be found in the \$20 to \$50 per square-foot range. This rent can be manageable, especially if a portion of this payment is considered to be advertising. A studio in a major retail location receives plenty of "automatic" advertising, as tens of thousands of people constantly pass the window display.

High-rent locations are sometimes available under a "percentage rent" provision, where payment is figured from a percentage of gross revenues that exceed a specified level. Depending upon individual circumstances, percentage rent may or may not be in addition to the standard rent. Because the gross revenues level is usually a high base number, most tenants are glad to pay percentage rent, because if they reach the specified gross revenues level, they are doing very well.

Needless to say, when a studio owner increases overhead expenses, the entire business plan must be carefully evaluated, preferably by a professional business planner or CPA who can determine how many sales dollars will support the increased overhead and provide an adequate profit. With higher overhead, a studio must earn a greater bottom line profit to compensate for the increased risk of moving into a more expensive location.

The asking price for lease space is not

always the figure that must be paid. Many leading shopping centers are willing to negotiate special lease rates or terms. For example, specific mall locations may lease for less if a photography studio does not need to occupy the prime location. Also, mall managers recognize that the first few years are generally difficult for a business, so they may be willing to apportion the rent on a sliding scale, with lower payments in the first few years and higher payments in the latter years of the contract.

It is also important to negotiate a renewal clause if you want to remain in a location after the original lease.

Unfortunately, many independent professional photographers don't have the option of leasing prime retail space, because it is often held for national chains with a proven track record. Local studios are more likely to find a location at brand new strip centers or at malls where space is available. However, beware! If space is available for an extended period of time, there may be problems, or else someone would have previously snapped it up.

In the event a studio located in a prime retail location must close, it is often possible to find someone to take over the contract.

Major shopping mall locations are certainly not for every studio. Some photography studios are more naturally suited for residential and low-rent locations. However, high-rent locations represent a potential profit-making alternative for those professional photographers interested in maximizing their bottom line. ■